SUGGESTED SOLUTION

CA INTERMEDIATE

SUBJECT-ACCOUNTS

Test Code – INP 2111

BRANCH - (Date :)

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ANSWER : 1(A)

As per provisions of AS 10, any cost directly attributable to bring the assets to the location and conditions necessary for it to be capable of operating in the manner indicated by the management are called directly attributable costs and would be included in the costs of an item of PPE.

Management of Neon Enterprise should capitalize the costs of construction and remodelling the restaurant, because they are necessary to bring the restaurant to the condition necessary for it to be capable of operating in the manner intended by management. The restaurant cannot be opened without incurring the construction and remodelling expenditure amounting Rs. 30,00,000 and thus the expenditure should be considered part of the asset.

However, the cost of salaries of staff engaged in preparation of restaurant Rs. 7,50,000 before its opening are in the nature of operating expenditure that would be incurred if the restaurant was open and these costs are not necessary to bring the restaurant to the conditions necessary for it to be capable of operating in the manner intended by management. Hence, Rs. 7,50,000 should be expensed.

(5 MARKS)

ANSWER : 1(B)

Exchange differences arising on restatement or repayment of liabilities incurred for the purpose of acquiring an item of property, plant and equipment should be adjusted in the carrying amount of the respective item of property, plant and equipment as Om Ltd. has exercised the option and it is long term foreign currency monetary item. Thus, the entire exchange loss due to variation of Rs. 20 lakh on 31.03.2020 on payment of US $ 10 lakh, should be added to the carrying amount of an item of property, plant and equipment and not to the cost of goods sold. Further, depreciation on the unamortized depreciable amount should also be provided.

Calculation of Exchange loss:

Foreign currency loan (in Rs.) = (50 lakh $ x Rs. 60) = Rs. 3,000 lakh

Exchange loss on outstanding loan on 31.03.2020 = Rs. 40 lakh US $ x (62.00-60.00) = Rs. 80 lakh.

So, Rs. 80 lakh should also be added to cost of an item of property, plant and equipment with corresponding credit to outstanding loan in addition to Rs. 20 lakh on account of exchange loss on payment of installment. The total cost of an item of property, plant and equipment to be increased by Rs. 100 lakh. Total depreciation to be provided for the year 2019 - 2020 = 20% of (Rs. 3,000 Iakh + 100 lakh) = Rs. 620 lakh.

(5 MARKS)

ANSWER : 1(C)

(1) **False:** The nature and the amount of each extraordinary item should be separately disclosed in the statement of profit and loss in a manner that its impact on current profit or loss can be perceived.

(2) **True:** When grants in the nature of promoters' contribution becomes refundable, in part or in full to the government on non-fulfillment of some specified conditions, the relevant amount refundable to the government is reduced from the capital reserve.

(3) **False:** Inventories should be valued at the lower of cost and net realizable value (not selling price) as per AS 2.

(4) **False:** A current investment is an investment that is by its nature readily realizable and is intended to be held for not more than one year from the date on which such investment is made.

(5) **False:** A contingency is a condition or situation, the ultimate outcome of which, gain or loss, will be known or determined only on the occurrence, or non-occurrence, of one or more uncertain future events.

(5 MARKS)

ANSWER : 1 (D)

Cash Flow Statement from Investing Activities of Subham Creative Limited for the year ended 31-03-2019

Cash generated from investing activities	**Rs.**	**Rs.**
Interest on loan received	70,000	
Pre-acquisition dividend received on investment made	52,600	
Unsecured loans given to subsidiaries	(5,00,000)	
Interest received on investments (gross value)	82,000	
TDS deducted on interest	(8,200)	
Sale of Plant & Machinery Rs. (90,000 – 9,600)	80,400	
Cash used in investing activities (before extra-ordinary item)		(2,23,200)
Extraordinary claim received for loss of machinery		55,000
Net cash used in investing activities (after extra-ordinary item)		(1,68,200)

Note:

1. Debenture interest paid and Term Loan repaid are financing activities and therefore not considered for preparing cash flow from investing activities.
2. Machinery acquired by issue of shares does not amount to cash outflow, hence also not considered in the above cash flow statement.
3. The investments made in debentures are for short-term, it will be treated as 'cash equivalent' and will not be considered as outflow in cash flow statement.

(5 MARKS)

ANSWER : 2(A)

Investment Account (Shares in Kumar Limited) in the books of Meera

Date	Particulars	No. of Shares	Income	Amt.	Date	Particulars	No. of Shares	Income	Amt
2019			Rs.	Rs.	2019			Rs.	Rs.
April 1	To Bank (Purchases)	40,000	-	60,000	May 15	By Bank (Sale)	8,000	-	15,200
May	To profit &	-	-	3,200					

15	Loss A/c. (W.N. 1)								
June 15	To Bonus Issue	8,000	-	Nil	2020				
July 15	To Bank (@ 75 P. paid on 4,000 shares)	4,000	-	3,000	May 15	By Bank (Dividend @ 15% on 32,000)	-	4,800	-
Sept.	To Bank (@ 75 p. paid on 4,000 shares)	-	-	3,000	Mar 31	By Balance c/d*	24,000	-	29,455
2020 Mar. 31	To Profit & Loss A/c (W.N. 2)	-		3,455					
	To Profit & Loss A/c.	-	4,800						
			52,000	**4,800**	**72,655**		**52,000**	**4,800**	**72,655**

* $\left(\frac{24,000}{44,000} \times 54,000\right)$

Working Notes :

(1)	Profit on Sale on 15.5.2019 :		
	Cost of 8,000 shares @ Rs. 1.50	Rs. 12,000	
	Less : Sales price	Rs. 15,200	
	Profit		Rs. 3,200
(2)	Cost of 20,000 shares sold :		
	Cost of 44,000 shares (48,000 + 6,000)		Rs. 54,000
	$\therefore$Cost of 20,000 Shares $\left(\frac{Rs.54,000}{44,000\ shares} \times 20,000\ shares\right)$		Rs. 24,545
	Profit on sale of 20,000 shares (28,000 – Rs. 24,545)		Rs. 3,455

(10 MARKS)

ANSWER : 2(B)

Computation of claim for loss of stock

	Rs.
Stock on the date of fire (i.e. on 1.10.2017)	3,75,000
Less: Stock salvaged	(50,000)
Stock destroyed by fire (Loss of stock)	3,25,000

Insurance claim = Rs.3,25,000

(Average clause is not applicable as insurance policy amount (Rs. 5,00,000) is more than the value of closing stock ie. Rs.3,75,000)

Memorandum Trading A/c

(1.4.17 to 30.9.17)

Particulars	Rs.	Particulars	Rs.
To Opening stock	3,50,000	By Sales	25,68,000
To Purchase	19,75,000	By Goods with Customers * (for approval (W.N. 1)	99,000
(Rs. 18,75,000 + Rs. 1,00,000)		By Closing stock (Bal. fig.)	3,75,000
To Carriage inward	35,000		
To Wages	40,000		
To Gross Profit (Rs. 25,68,000 × 25%)	6,42,000		
	30,42,000		**30,42,000**

For financial statement purposes, this would form part of closing stock (since there is no sale). However, this has been shown separately for computation of claim for loss of stock since the goods were physically not with the entity and, hence, there was no loss of such stock.

Working Notes:

1. **Calculation of goods with customers**

   Since no approval for sale has been received for the goods of Rs.1,32,000 (i.e. 2/3 of Rs. 1,98,000) hence, these should be valued at cost i.e. Rs. 1,32,000 – 25% of Rs.1,32,000 =Rs.99,000.

2. **Calculation of actual sales**

   Total sales – Goods not dispatched - Sale of goods on approval (2/3rd) = Sales (Rs. 27,75,000 – 75,000 – Rs.1,32,000) = Rs.25,68,000

(10 MARKS)

ANSWER : 3(A)

Departmental Trading Account for the year ended on 31st March, 2020

Particulars	A	B	Particulars	A	B
	Rs.	**Rs.**		**Rs.**	**Rs.**
To Opening Stock	3,00,000	2,40,000	By Sales	60,00,000	90,00,000
To Purchases	39,00,000	54,60,000	By Closing Stock	6,00,000	12,00,000
To Gross Profit	24,00,000	45,00,000			
	66,00,000	1,02,00,000		66,00,000	1,02,00,000

General profit and loss account of Beta for the year ended on 31 st March, 2020

Particulars	Amount	Particulars	Amount
	Rs.		**Rs.**
To General expenses	7,50,000	By Stock reserve (opening stock)	
To Stock reserve (Closing Stock)		Dept. A	30,000
Dept. A	60,000	Dept. B	36,000
Dept. B	72,000	By Gross Profit	
To Net Profit	60,84,000	Dept. A	24,00,000
		Dept. B	45,00,000
	69,66,000		**69,66,000**

Working Notes:

	Dept. A	Dept. B
Percentage of Profit	24,00,000/60,00,000 x 100 = 40%	45,00,000/90,00,000 x 100 = 50%
Opening Stock reserve	60,000 x 50% = 30,000	90,000 X 40% = 36,000
Closing Stock reserve	1,20,000 x 50%=60,000	1,80,000 x 40% = 72,000

(8 MARKS)

ANSWER : 3(B)

Tractor Account

Date	Particulars	Rs.	Date	Particulars	Rs.
1.4.2017	To Raj	11,50,000	31.3.2018	By Dep.	1,15,000
				By Balance c/d	10,35,000
		11,50,000			11,50,000
1.4.2018	To Balance b/d	10,35,000	31.3.2019	By Dep.	1,15,000
				By Balance c/d	9,20,000
		10,35,000			10,35,000
1.4.2019	To balance b/d	9,20,000	31.3.2020	By Dep.	1,15,000
				By Balance c/d	8,05,000
		9,20,000			**9,20,000**

H.P. Interest Suspense Account

Date	Particulars	Rs.	Date	Particulars	Rs.
1.4.2017	To Raj Ltd. A/c (W.N.)	1,44,000	31.3.2018	By Interest A/c	72,000
			31.3.2018	By Balance c/d	72,000
		1,44,000			1,44,000
1.4.2018	To Balance b/d	72,000	31.3.2019	By Interest A/c	48,000
			31.3.2019	By Balance c/d	24,000
		72,000			72,000
1.4.2019	To Balance b/d	24,000	31.3.2020	By Interest A/c	24,000

Total Interest = Rs.72,000 + Rs.48,000 + Rs.24,000 = Rs.1,44,000

Raj Ltd. Account

Date	Particulars	Rs.	Date	Particulars	Rs.
1.4.2017	To Bank A/c	2,50,000	1.4.2017	By Tractor A/c	11,50,000
31.3.2018	To Bank A/c	3,72,000		By H.P. Interest Suspense A/c	1,44,000
	To Balance c/d	6,72,000			
		12,94,000			12,94,000
31.3.2019	To Bank A/c	3,48,000	1.4.2018	By Balance b/d	6,72,000
	To Balance c/d	3,24,000			
		6,72,000			6,72,000
31.3.2020	To Bank A/c	3,24,000	1.4.2019	By Balance b/d	3,24,000

(12 MARKS)

ANSWER : 4(A)

Tejasvi (P) Limited

Statement showing apportionment of cost and revenue between pre – incorporation and post – incorporation periods

	Pre. Inc. (5 months)	Post inc. (10 months)
	(Rs.)	(Rs.)
Sales (W.N. 1)	3,00,000	16,80,000
Less : Cost of Sales	1,80,000	10,08,000
Discount to dealers	7,000	39,200
Directors' remuneration	-	60,000
Salaries (W.N. 2)	18,750	71,250
Rent (W.N. 3)	15,000	1,20,000
Interest (W.N. 4)	30,000	75,000
Depreciation	10,000	20,000
Office expenses	35,000	70,000
Preliminary expenses		15,000
Net Profit	4,250	2,01,550

Working Notes :

1. Calculation of sales ratio

Let the average sales per month in pre – incorporation period be x

Average Sales (Pre – incorporation)	= x × 5	= 5x
Sales (Post incorporation) from June to December, 2019	= 2 ½ × 7	= 17.5x
From January to March, 2020	= 3 ½ × 3	= 10.5x
Total Sales		28.0x

Sales ratio of pre – incorporation & post incorporation is 5x : 28x

2. Calculation of ratio for salaries

Let the average salary be x

Pre – incorporation salary	= x × 5	= 5x
Post incorporation salary		
June, 2019	=	x
July, 2019 to March, 2020	= x × 9 × 2	=18x
		19x

Ratio is 5 : 19

3. Calculation of Rent

		Rs.
Total Rent		1,35,000
Less : Additional rent for 9 months @ Rs. 10,000 p.m.		90,000
Rent of old premises apportioned in time ratio		45,000
Apportionment	Pre Inc.	Post Inc.
Old premises rent	15,000	30,000
Additional Rent		90,000
	15,000	1,20,000

4. Calculation of interest

Pre – incorporation period from January, 2019 to May, 2019

$\left(\frac{6,00,000 \times 12 \times 5}{100 \times 12}\right)$ = Rs. 30,000

Post incorporation period from June, 2019 to March, 2020

$\left(\frac{9,00,000 \times 10 \times 10}{100 \times 12}\right)$ = Rs. 75,000

Rs. 1,05,000

(10 MARKS)

ANSWER : 4(B)

Journal Entries

			Rs.	Rs.
1	10% Preference Share Final Call A/c. To 10% Preference Share Capital A/c. (For Final call made on Preference Shares @ Rs. 20 each to make them fully paid up)	Dr.	6,00,000	 6,00,000
2	Bank A/c To 10% Preference Share Final Call A/c (For receipt of final call money on preference shares)	Dr.	6,00,000	 6,00,000
3	Bank A/c. To Equity Share Application A/c. (For receipt of application money on 1,50,000 equity shares @ Rs.2 per share)	Dr.	3,00,000	 3,00,000
4.	Equity Share Application A/c To Equity Share Capital A/c (For capitalization of application money received)	Dr.	3,00,000	 3,00,000
5	Equity Share Allotment A/c To Equity Share Capital A/c To Securities Premium A/c (For allotment money due on 1,50,000 equity shares @ Rs. 7 per share including a premium of Rs. 2 per share)	Dr.	10,50,000	 7,50,000 3,00,000
6	Bank A/c To Equity Share Allotment A/c (For receipt of allotment money on equity shares)	Dr.	10,50,000	 10,50,000
7	10% Preference Share Capital A/c Premium on Redemption of Preference Shares A/c To Preference Shareholders A/c (For amount payable to preference shareholders on redemption at 10 % premium)	Dr. Dr.	30,00,000 3,00,000	 33,00,000
8	General Reserve A/c To Premium on Redemption A/c (Writing off premium on redemption of preference shares)	Dr.	3,00,000	 3,00,000

9	General Reserve A/c Dr.		19,50,000	
	To Capital Redemption Reserve A/c			19,50,000
	(For transfer of CRR the amount not covered by the proceeds of fresh issue of equity shares i.e., 30,00,000 - 3,00,000 - 7,50,000)			
10	Preference Shareholders A/c Dr.		33,00,000	
	To Bank A/c			33,00,000
	(For amount paid to preference shareholders)			

Balance Sheet (extracts)

	Particulars	Notes No.	As at 31.3.2020	As at 31.12.2019
			Rs.	Rs.
1.	EQUITY AND LIABILITIES			
	Shareholders' funds			
	a) Share capital	1	70,50,000	84,00,000
	b) Reserves and Surplus	2	59,00,000	59,00,000

Notes to Accounts:

		As at 31.3.2020	As at 31.12.2019
1.	Share Capital		
	Issued, Subscribed and Paid up:		
	6,00,000 Equity shares of Rs. 10 each fully paidup	60,00,000	60,00,000
	1,50,000 Equity shares of Rs.10 each Rs.7 paid up	10,50,000	-
	30,000, 10% Preference shares of Rs. 100 each, Rs.80 paid up	-	24,00,000
		70,50,000	84,00,000
2.	Reserves and Surplus		
	Capital Redemption Reserve	37,50,000	18,00,000
	Securities Premium	9,00,000	6,00,000
	General Reserve	12,50,000	35,00,000
		59,00,000	59,00,000

Note:

1. Securities premium has not been utilized for the purpose of premium payable on redemption of preference shares assuming that the company referred in the question is governed by Section 133 of the Companies Act, 2013 and comply with the Accounting Standards prescribed for them.
2. Amount received (excluding premium) on fresh issue of shares till the date of redemption should be considered for calculation of proceeds of fresh issue of shares. Thus, proceeds of fresh issue of shares are Rs.10,50,000 (Rs.3,00,000 application money plus Rs. 7,50,000 received on allotment towards share capital) and balance Rs. 19,50,000 to taken from general reserve account.

(10 MARKS)

ANSWER : 5(A)

Balance Sheet of Shree Ltd.
As at 31st March, 2020

		Particulars	Note No.	(Rs.)
I		**Equity and Liabilities**		
	(1)	**Shareholders' Funds**		
		(a) Share Capital	1	19,90,000
		(b) Reserve and Surplus	2	3,47,000
	(2)	Current Liabilities		
		(a) Trade Payables		2,40,500
		(b) Other Current Liabilities	3	13,28,000
		(c) Short – term Provisions	4	1,20,000
		Total		40,25,500
II	**Assets**			
	(1)	**Non Current Assets**		
		(i) Property, plan and Equipment (PPE)	5	29,30,000
	(2)	**Current Assets**		
		(a) Inventories		7,08,000
		(b) Trade Receivables	6	3,59,500
		(c) Cash and Cash Equivalents	7	28,000
		Total		40,25,000

Shree Ltd.
Statement of Profit and Loss for the year ended 31st March, 2020

	Particulars	Note No.	(Rs.)
I	Revenue from Operations		36,17,000
II	Other Income	8	36,500
III	Total Revenue [I + II]		36,53,500
IV	Expenses :		
	Cost of purchases		12,32,500
	Changes in Inventories [6,65,000 – 7,08,000]		(43,000)
	Employee Benefits Expenses	9	13,93,000
	Finance Costs	10	1,11,000
	Depreciation and Amortization Expenses		1,20,000
	Other Expenses	11	4,40,000
	Total Expenses		**32,53,500**
V	**Profit before Tax (III – IV)**		4,00,000
VI	**Tax Expenses @ 30%**		(1,20,000)
VII	**Profit for the period**		2,80,000

Notes to Accounts :

1. Share Capital

Authorised Capital	
5,00,000 Equity Shares of Rs. 10 each	50,00,000
Issued Capital	
2,00,000 Equity Shares of Rs. 10 each	20,00,000
Subscribed Capital and fully paid	
1,95,000 Equity Shares of Rs. 10 each	19,50,000
Subscribed Capital but not fully paid	
5,000 Equity shares of Rs. 10 each Rs. 8 paid	40,000
(Call unpaid Rs. 10,000)	19,90,000

2. Reserves and Surplus

Surplus i.e. Balance in Statement of Profit & Loss :		
Opening Balance	67,000	
Add : Profit for the period	2,80,000	3,47,000

3. Other Current Liabilities

Bank Overdraft Outstanding Expenses (25,000 + 36,000)	12,67,000 61,000
	13,28,000

4. Short – term Provisions

Provision for Tax	1,20,000

5. PPE

Particulars	Value Given	Depreciation rate	Depreciation Charged	Written down value at the end
	(Rs.)		**(Rs.)**	**(Rs.)**
Land	16,25,000			16,25,000
Plant & Machinery	7,50,000	5%	37,500	7,12,500
Furniture & Fixtures	1,50,000	10%	15,000	1,35,000
Patterns	3,75,000	10%	37,500	3,37,500
Engineering Tools	1,50,000	20%	30,000	1,20,000
	30,50,000		**1,20,000**	**29,30,000**

6. Trade Receivables

Trade receivables (4,00,500 – 16,000) Less : Provision for doubtful debts	3,84,500 (25,000)
	3,59,000

7. Cash & Cash Equivalent

Cash Balance Bank Balance in current A/c.	8,000 20,000
	28,000

8. Other Income

Miscellaneous Income (Transfer fees) Rental Income	6,500 30,000
	36,500

9. Employee benefits expenses

Wages Add : Outstanding wages	13,68,000 25,000
	13,93,000

10. Finance Cost

Interest on Bank overdraft	1,11,000

11. Other Expenses

Carriage Inward	57,500
Discount & Rebates	30,000
Advertisement	15,000
Rate, Taxes and Insurance	55,000
Repairs to Buildings	56,500
Commission & Brokerage	67,500
Miscellaneous Expenses [56,000 + 36,000] (Business Expenses)	92,000
Bad Debts [25,500 + 16,000]	41,500
Provision for Doubtful Debts	25,000
	4,40,000

(14 MARKS)

ANSWER : 5(B)

Journal Entries in the books of Umesh Ltd.

			Rs.	Rs.
1-4-2021	Equity share final call A/c	Dr.	6,00,000	
	To Equity share capital A/c			6,00,000
	(For final calls of Rs. 2 per share on 3,00,000 equity shares due as per Board's Resolution dated….)			
20-4-2021	Bank A/c	Dr.	6,00,000	
	To Equity share final call A/c			6,00,000
	(For final call money on 3,00,000 equity shares received)			
	Securities Premium A/c	Dr.	75,000	
	Capital redemption reserve A/c	Dr.	1,20,000	
	General Reserve A/c	Dr.	3,60,000	
	Profit and Loss A/c (b.f.)	Dr.	1,95,000	
	To Bonus to shareholders A/c			7,50,000
	(For making provision for bonus issue of one share for every four shares held)			
	Bonus to shareholders A/c	Dr.	7,50,000	
	To Equity share capital A/c			7,50,000
	(For issue of bonus shares)			

(6 MARKS)

ANSWER : 6(A)

In the books of Ganesh Ltd.
New York Branch Trial Balance in (Rs.)
as on 31st March, 2020

	Conversion rate per US $	Dr.	Cr.
	(Rs.)	Rs.	Rs.
Stock on 1.4.19	40	12,000	-
Purchases and sales	41	32,800	61,500

Sundry debtors and creditors	42	16,800	12,600
Bills of exchange	42	5,040	10,080
Sundry expenses	41	44,280	
Bank Balance	42	17,640	-
Delhi office A/c.	-	-	44,380
		1,28,560	1,28,560

(5 MARKS)

ANSWER : 6(B)

(i) Users of financial statements :

Investors, Employees, Lenders, Supplies, / Creditors, Customers, Government & Public

(ii) Qualitative Characteristics of Financial Statements :

Understandability, Relevance, Comparability, Reliability & Faithful Representation

(iii) Elements of Financial Statements :

Asset, Liability, Equity, Income/ Gain and Expenses /Loss

(5 MARKS)

ANSWER : 6(C)

Para 10 of AS 16 'Borrowing Costs' states that to the extent the funds are borrowed specifically for the purpose of obtaining a qualifying asset, the amount of borrowing costs eligible for capitalization on that asset should be determined as the actual borrowing costs incurred on that borrowing during the period less any income on the temporary investment of those borrowings. The capitalization rate should be the weighted average of borrowing costs applicable to the borrowings of the enterprise that are outstanding during the period, other than borrowings made specifically for the purpose of obtaining a qualifying asset. Hence, in the above case, treatment of accountant of Vital Ltd. is incorrect. The amount of borrowing costs capitalized for the financial year 2019 – 20 should be calculated as follows :

Actual interest for 2019 – 20 (10% of Rs. 150 crores)	Rs. 15.00 crores
Less : Income on temporary investment from specific borrowings	(Rs. 1.50 crores)
Borrowing costs to be capitalized during year 2019 – 2020	Rs. 13.50 crores

(5 MARKS)

ANSWER : 6(D)

According to AS 2 'Valuation of Inventories', inventories should be valued at the lower of cost and net realizable value.

Product – A

Material cost	Rs. 40 x 200 = 8,000	
Wages cost	Rs. 30 x 200 = 6,000	
Overhead	Rs. 20 x 200 = 4,000	
Total cost		Rs. 18,000
Realizable value [200 x (110-11)]		Rs. 19,800
Hence inventory value of Product -A		Rs. 18,000

Product – B

Material cost	Rs. 45 x 800 = 36,000	
Wages cost	Rs. 35 x 800 = 28,000	
Total cost		Rs. 64,000
Realizable value (800 x 70)		Rs. 56,000
Hence inventory value of Product-B		Rs. 56,000
Total Value of closing inventory i.e. Product A + Product B (18,000+ 56,000)		Rs. 74,000

(5 MARKS)