aglasem.com

FOR CA INTERMEDIATE EXAM PREPARATION

CA Intermediate 2022 Suggested Answers · Paper 1 Accounting (Old Scheme)

EXAM	YEAR	TYPE
CA Intermediate	2022	Suggested Answers

SUBJECT	DATE
Paper 1 Accounting (Old Scheme)	November 2022

PAPER – 1 : ACCOUNTING

*Question No. **1** is compulsory.*

*Answer any **four** questions from the remaining **five** questions.*

Wherever necessary, suitable assumptions may be made and indicated in answer by the candidates.

Working Notes should form part of the answer.

Question 1

Answer the following Questions:

(a) Following information of Sarah Limited is given:

Sarah Limited uses Raw Material 'A' for production of production of Finished Goods 'B'

Closing balance of Raw Material 'A' in units on 31st March,2022	*750*
	Price Per Unit in ₹
Cost Price	*150*
Freight inward	*10*
Replacement Cost	*152*
Closing balance of Finished Good 'B' in units on 31st March,2022	*1,600*
	Price Per Unit in ₹
Material Consumed	*225*
Direct Labour	*75*
Direct variable overhead	*60*

Total Fixed Overheads amounts to ₹ 1,00,000 on normal capacity of 20,000 units.

You are required to calculate the value of Closing Stock of Raw materials and Closing Stock of Finished Goods, as on 31st March, 2022, as per AS 2, when selling price of Finished Goods 'B' is ₹ 360 per unit.

(b) Ridgeway Limited, a Non-Financial company has the following activities:

(i) Dividend paid for the year.

(ii) TDS on interest income earned on investments made.

(iii) Loans and advances given to suppliers and interest earned from them.

(iv) Deposit with bank for a term of two years.

(v) Highly liquid Marketable Securities (without risk of change in value).

(vi) Investments made and dividends earned on them.

(vii) Insurance claims received against loss of stock or loss of profits.

© The Institute of Chartered Accountants of India

(viii) *Loans and advances given to subsidiaries and interest earned from them.*

(ix) *Issue of Bonus Shares.*

(x) *Term loan repaid.*

You are required to classify the above activities in Cash Flow Statement as per 'AS-3'.

(c) (i) *Jared Limited purchased a Machine for US $ 20,000 on 31st December, 2021 payable after four months. It entered into a forward contract for four months @ ₹ 78.85 per US $. On 31st December,2021 the exchange rate was ₹ 77.50 per US $.*

How will you recognize the Profit or Loss on Forward Contract for the year ended 31st March,2022 in the books of Jared Limited?

(ii) *Trade Payables of Jared Limited includes amount due to Sterling Limited ₹ 9,75,000 recorded at the prevailing exchange rate on the date of purchase; transaction recorded at US $ 1 = ₹ 75.00. The exchange rate on Balance Sheet date (31st March,2022) was US $ 1 = 79.00 The payment was made on 1st May,2022 when the exchange rate was US $ 1 = ₹ 78.30.*

You are required to calculate the amount of exchange difference on 31st March, 2022 and 1st May, 2022 and also explain the accounting treatment needed in the above case as per AS 11 in the books of Jared Limited.

(d) (i) *An unquoted long term investment made in the shares of Rachel Limited is carried in the books of Ziva Limited at a cost of ₹ 1,00,000. The audited financial statements of Rachel Limited received in May,2021 showed that the company had been incurring cash losses with declining market share and the long term investment may not fetch more than ₹ 55,000.*

(ii) *On 1st December, 2021 Ziva Limited had made an investment of ₹ 5,00,000 in 4,000 Equity Shares of Garry Limited at a price of ₹ 125 per share with an intention to hold it for not more than six months. In the first week of March, 2022, Garry Limited suffered heavy loss due to an earthquake; the loss was not covered by an insurance policy. On 31st March,2022, the shares of Garry Ltd. were traded at a price of ₹ 80 per share on the Stock Exchange.*

How would you deal with the above investments in the books of Ziva Limited for the year ended 31st March,2022 as per the provisions of Accounting Standard 13 'Accounting for Investments'? ***(4 Parts x 5 Marks= 20 Marks)***

Answer

(a)

Raw Material A	₹
Cost Price	150
Add: Freight Inward	10

© The Institute of Chartered Accountants of India

Cost per unit	160
Replacement cost per unit of raw material	152

As per AS 2 (Revised) "Valuation of Inventories", the inventories are to be valued at lower of cost or net realizable value. Materials and other supplies held for use in the production of inventories are written down below cost if the selling price of finished product containing the material does not exceed the cost of the finished product. In the given case, net realizable value of the Product 'B' (Finished Goods) is ₹ 360 per unit which is less than its cost ₹ 365 per unit. Raw Material is to be valued at replacement cost.

Value of the closing stock of raw material on 31/03/2022 would be ₹ 1,14,000 (750 units X ₹152 per unit).

Finished Goods B	₹
Materials consumed	225
Direct Labour	75
Direct Variable overheads	60
Fixed overheads (₹ 1,00,000/20,000 units)	5
Cost per unit	365
Net realizable value per unit	360

As per AS 2 (Revised) "Valuation of Inventories", the inventories are to be valued at lower of cost or net realizable value. Hence, Finished Goods are to be valued at NRV since NRV is less than the cost.

Value of the closing stock of Finished goods as on 31/03/2022 would be ₹ 5,76,000 (1,600 units X ₹ 360 per unit).

(b)

No.		Activities
(i)	Dividend paid for the year	Financing
(ii)	TDS on interest income earned on investments made	Investing
(iii)	Loans and advances given to suppliers and interest earned from them	Operating
(iv)	Deposit with bank for a term of two years	Investing
(v)	Highly liquid Marketable Securities (without risk of change in value)	Cash Equivalent
(vi)	Investments made and dividends earned on them	Investing
(vii)	Insurance claims received against loss of stock	Operating

© The Institute of Chartered Accountants of India

	or loss of profits	
(viii)	Loans and advances given to subsidiaries and interest earned from them	Investing
(ix)	Issue of Bonus Shares	No Cash Inflow/Cash outflow
(x)	Term Loan repaid	Financing

(c) (i)

	₹
Forward Rate	78.85
Less: Spot Rate	(77.50)
Premium on Contract	1.35
Contract Amount	US$ 20,000
Total Loss (20,000 x 1.35)	₹ 27,000

Contract period 4 months (3 months falling in the year ended 31st March, 2022)

Loss to be recognized (₹27,000x 3/4) = ₹ 20,250 in the year ended 31st March, 2022.

(ii) As per AS 11 "The Effects of Changes in Foreign Exchange Rates", exchange differences arising on the settlement of monetary items or on reporting an enterprise's monetary items at rates different from those at which they were initially recorded during the period, or reported in previous financial statements, should be recognized as income or as expenses in the period in which they arise.

Trade payables	*Foreign Currency Rate*	*Amount ₹*
Initial recognition US $13,000 (9,75,000/75)	1 US $ = ₹ 75	
Exchange Rate on Balance sheet date	1 US $ = ₹ 79	
Exchange Difference Loss US $ 13,000 X (79-75)		52,000
Exchange Rate on Settlement date	1 US $ = ₹ 78.30	
Exchange Difference Profit US $ 13,000x(79-78.30)		9,100

For the year ended 31st March, 2022 exchange diffefence loss amounting ₹ 52,000 will be charged to statement of Profit & Loss A/c.

However, there is exchange difference gain of ₹ 13,000 x (79-78.30) = 9,100 on 1st May, 2022. Thus gain of ₹ 9,100 will be credited to statement of Profit & Loss A/c for the year ended 31st March, 2023.

(d) (i) Investments classified as long -term investments should be carried in the financial statements at cost. However, provision for diminution should be made to recognize a decline, other than temporary, in the value of the investments, such reduction being

© The Institute of Chartered Accountants of India

determined and made for each investment individually.

On this basis, the facts of the given case, it would be appropriate to reduce the carrying value of Long-term investments to ₹ 55,000 in the financial statements for the year ended 31st March, 2022.Thus the unquoted investment in the shares of Rachel Ltd. will be valued at ₹ 55,000

The provision for diminution amounting ₹ 45,000 should be made to reduce the carrying amount of the investments.

(ii) Equity Shares in Garry Ltd. will be considered as current investment as intended to hold for not more than six months. As per AS 13, "Accounting for Investments", carrying amount for current investments is the lower of cost and fair value. In respect of current Investments for which as active market exists, market value generally provides the best evidence of fair value.

Since on 31st March,2022, the shares of Garry Limited were trading at a price of ₹ 80 per share on the stock exchange, the equity shares of Garry Ltd. should be carried in the financial statements at realizable value i.e. at ₹ 3,20,000 (4,000 shares @ ₹ 80 per share).The reduction of ₹ 1,80,000 in carrying value of current investment will be charged to the statement of profit and loss for the year ended 31st March,2022.

Question 2

(a) A fire occurred in the premises of M/s Preet Enterprises on the night of 28th September, 2022. The firm has taken an Insurance Policy for ₹ 5,00,000 which is subject to average clause. The value of goods salvaged was estimated at ₹ 62,500. The firm continues to maintain the same rate of Gross Profit as during the preceding year.

The following information were available:

	Particulars	*₹*
(i)	*Stock at Cost on 1st April, 2021*	*5,25,000*
(ii)	*Stock at Cost on 31st March, 2022*	*4,20,000*
(iii)	*Purchases for the year ended 31st March, 2022*	*37,35,000*
(iv)	*Sales for the year ended 31st March, 2022*	*48,00,000*
(v)	*Purchases from 1st April,2022 to 28th September, 2022*	*27,22,000*
(vi)	*Sales from 1st April, 2022 to 28th September, 2022*	*33,30,000*

Additional Information:

(i) Purchase up to 28th September,2022 did not include ₹ 1,20,000 for which purchase invoice had not been received from suppliers though the goods had been received in the warehouse.

(ii) Sale value of goods distributed for advertisement from 1st April,2022 to 28th September,2022 is ₹ 90,000.

© The Institute of Chartered Accountants of India

(iii) Sales up to 28thSeptember, 2022 include ₹90,000 for which the goods had not been dispatched.

(iv) On 1st July,2022, goods worth ₹1,50,000 was sold to Ram and Co. on approval basis which was included in the sales but no approval had been received for 2/3rd of the goods sold to them till 28th September,2022.

You are required to ascertain the amount of claim to be lodged with the Insurance Company for Loss of Stock. ***(10 Marks)***

(b) Mr. Saurabh held 10,000 equity shares of BT Limited on 1st April,2021. Nominal value of the shares is ₹2 each and their book value is ₹7 per share.

- *On 4th July,2021 he purchased another 7,500 shares at ₹10 each.*
- *On 31st July 2021 the company announced a Bonus and Right issue.*
- *Bonus was declared of one share for every five shares held and was received on 5th August,2021.*
- *Right issue to be issued on 12th September,2021, which entitled the holders to subscribe to additional 2 shares for every 7 shares held at ₹ 2 per share. Shareholders were entitled to transfer their rights in full or part. Mr. Saurabh sold whole of his entitlements to Mr. Nihal at ₹1.50 per share.*
- *Dividend was declared for the year ended 31st March,2021 @ 25% and received by Mr. Saurabh on 19th September 2021.*
- *On 11th December 2021 Mr. Saurabh sold 7,500 shares at ₹8 per share.*
- *The market price of the shares on 31st March,2022 was ₹7 per share.*

You are required to prepare the Investment Account of Mr. Saurabh on 31st March,2022 considering the above mentioned points, also state the value of shares held on that date. (Assume investment as current investment) ***(10 Marks)***

Answer

(a) Computation of claim for loss of stock

	₹
Stock on the date of fire (i.e. on 28.9.2022)	5,98,000
Less: Stock salvaged	(62,500)
Stock destroyed by fire (Loss of stock)	5,35,500

Amount of claim:

$$= \frac{\text{Insured value}}{\text{Total cost of stock on the date of fire}} \times \text{loss of stock}$$

© The Institute of Chartered Accountants of India

(Average clause is applicable as insurance policy amount (₹ 5,00,000) is less than the value of closing stock ie. ₹ 5,98,000)

5,00,000/5,98,000 X 5,35,500 = ₹ 4,47,742 (rounded off)

Trading Account for the year ended 31.3.2022

Particulars	*(₹)*	*Particulars*	*(₹)*
To Opening stock	5,25,000	By Sales	48,00,000
To Purchases	37,35,000	By Closing Stock at cost	4,20,000
To Gross Profit	9,60,000		
	52,20,000		52,20,000

Rate of gross profit = $\frac{9,60,000}{48,00,000}$ = 20%

Memorandum Trading A/c
(1.4.22 to 28.9.22)

Particulars	*(₹)*	*Particulars*	*(₹)*
To Opening stock	4,20,000	By Sales (W.N. 2)	31,40,000
To Purchases ₹ 27,22,000		By Goods with customers* (for approval) (W.N.1)	80,000
Add: Purchase for which invoice not received ₹1,20,000	28,42,000		
To Gross profit (₹ 31,40,000 x 20%)	6,28,000	By cost of goods distributed**	72,000
		By Closing stock (bal. fig.)	5,98,000
	38,90,000		38,90,000

* 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.

** This may alternatively be shown as deduction from purchases on the debit side of the Memorandum Trading Account.

Working Notes:

1. **Calculation of goods with customers**

   Since no approval for sale has been received for the goods of ₹ 1,00,000 (i.e. 2/3 of ₹ 1,50,000) hence, these should be valued at cost i.e. ₹ 1,00,000 – 20% of ₹ 1,00,000 = ₹ 80,000.

© The Institute of Chartered Accountants of India

2. **Calculation of actual sales**

Total sales – Goods not dispatched - Sale of goods on approval (2/3rd)

= Sales (₹ 33,30,000 – ₹ 90,000 – ₹ 1,00,000) = ₹ 31,40,000

(b) Investment Account in Books of Saurabh

(Script: Equity Shares in BT Ltd.)

		No.	*Dividend*	*Amount*			*No.*	*Dividend*	*Amount*
				₹					₹
1.4.21	To Bal b/d	10,000		70,000	19.9.2021	By Bank (dividend		5,000	3,750
4.7.21	To Bank	7,500		75,000		on shares acquired on 4.7. 2021)			
5.8.21	To Bonus	3,500		0					
11.12.21	To P&L A/c (Profit			9,554	11.12.2021	By Bank	7,500		60,000
	on sale of shares)					(Sale of shares)			
31.3.22	To P&L A/c		5,000		31.3.2022	By Bal. c/d	13,500		90,804
		21,000	5,000	1,54,554			21,000	5,000	1,54,554

Working Notes:

(1) Right Shares = $\frac{(10,000 + 7,500 + 3,500)}{7} \times 2 = 6,000$

Sale of rights amounting ₹ 9,000 (₹ 1.5 x 6,000 shares)

It will not be shown in investment A/c but will directly be taken to P & L statement.

(2) **Profit on sale of 7,500 shares**

= Sales proceeds – Average cost

Sales proceeds = ₹ 60,000

Average cost = (70,000 + 75,000 – 3,750) /21,000 x 7,500 = ₹ 50,446

Profit = ₹ 60,000 – ₹ 50,446 = ₹ 9,554.

(3) **Value of investments**

Current investments are valued at lower of cost or net realizable value.

Here, cost= (70,000 + 75,000 – 3,750)/ 21,000 X 13,500 = ₹ 90,804

Net realizable value of the shares = ₹ 94,500

Therefore, value of investments will be taken lower of above i.e.₹ 90,804

© The Institute of Chartered Accountants of India

Note: As question is silent, Average cost basis has been considered for calculation of cost of shares in above solution. Alternatively, FIFO method can also be considered for calculation of cost of shares. An alternative solution is given below based on FIFO method-

Alternative Solution

Investment Account in Books of Saurabh
(Script: Equity Shares in BT Ltd.)

		No.	*Dividend*	*Amount*			*No.*	*Dividend*	*Amount*
				₹					₹
1.4.21	To Bal b/d	10,000		70,000	19.9.21	By Bank (dividend on		5,000	3,750
4.7.21	To Bank	7,500		75,000		shares acquired on 4.7. 2021)			
5.8.21	To Bonus	3,500		0					
11.12.21	To P&L A/c (Profit			7,500	11.12.21	By Bank	7,500		60,000
	on sale of shares)					(Sale of shares)			
31.3.22	To P&L A/c		5,000		31.3.22	By Bal. c/d	13,500		88,750
		21,000		1,52,500			21,000		1,52,500

Working Notes:

(1) Right Shares = $\frac{(10,000 + 7,500 + 3,500)}{7} \times 2 = 6,000$

Sale of rights amounting ₹ 9,000 (₹ 1.5 x 6,000 shares)

It will not be shown in investment A/c but will directly be taken to P & L statement.

(2) **Profit on sale of 7,500 shares**

= Sales proceeds – Cost

Sales proceeds = ₹ 60,000

Cost = 7,500 X ₹ 7= ₹ 52,500

Profit = ₹ 60,000 – ₹ 52,500 = ₹ 7,500.

(3) **Value of investments**

Current investments are valued at lower of cost or net realizable value

Here, cost= (2500 X₹7) + (7500 X₹10) -₹3750 = ₹ 88,750

Net realizable value of the shares = ₹ 94,500

Therefore, value of investments will be taken lower of above i.e.₹ 88,750

© The Institute of Chartered Accountants of India

Question 3

(a) *Modern Stores of Delhi operates a branch at Nagpur. The Head office affects all purchases and the branch is charged at cost plus 60%. All the cash received by Nagpur Branch is remitted to Delhi. The Branch expenses are met by the Branch out of an Imprest Account which is reimbursed by the Delhi Head Office every month. The Branch maintains a Sales Ledger and certain essential subsidiary records, but otherwise all branch transactions are recorded at Delhi.*

The following branch transactions took place during the year ended 31st March, 2022:

	₹
Goods received from Delhi at Selling Price	*1,50,000*
Cash Sales	*69,000*
Goods returned to Delhi at Selling Price	*3,000*
Credit Sales (Net of returns)	*63,000*
Authorized Reduction in Selling Price of Goods Sold	*1,500*
Cash Received from Debtors	*48,000*
Debtors written off as irrecoverable	*2,000*
Cash Discount allowed to Debtors	*1,500*

- *On 1st April, 2021 the Stock in trade at the Branch at Selling Price amounted to ₹ 60,000 and the Debtors were ₹ 40,000.*
- *A consignment of goods sent to the Branch on 27th March,2022 with a Selling Price of ₹ 1,800 was not received until 5th April,2022 and had not been accounted for in stock.*
- *The Closing Stock at Selling Price was ₹ 72,900.*
- *The expenses relating to the Branch for the year ended 31st March,2022 amounted to ₹ 18,000.*

You are required to prepare the Branch Stock Account, Branch Debtors Account, Branch Adjustment Account and Branch Profit and Loss Account maintained at Delhi under Stock and Debtors method. Any stock unaccounted for is to be regarded as normal wastage.

(10 Marks)

(b) *Ramesh had ₹ 3,30,000 in the bank account on 1st January,2021 when he started his business. He closed his accounts on 31st March, 2022. His single-entry books (in which he did not maintain any bank account for the bank) showed his position as follows:*

	31.3.2021	*31.3.2022*
Stock	*20,900*	*31,900*
Debtors	*1,100*	*3,200*

© The Institute of Chartered Accountants of India

Cash	*2,200*	*3,300*
Creditors	*5,500*	*4,300*

On and from 1st February,2021, he began drawings at ₹ 770 per month for his personal expenses from the cash box of the business. His account with the bank had the following entries:

	Deposits	*Withdrawals*
1.1.2021 to 31.3.2021	*-*	*2,45,300*
1.4.2021 to 31.3.2022	*2,53,000*	*2,97,000*

- *The above withdrawals included payment by cheque of ₹ 2,20,000 and ₹ 66,000 during the period from 1st January, 2021 to 31 March,2021 and from 1st April,2021 to 31st March,2022 respectively for the purchase of Machines for the business.*
- *The deposits after 1st January, 2021 consisted wholly of sale proceeds received from the customers by cheques.*
- *One customer (Suresh) had directly deposited a cheque of ₹ 2,700 on 25th March, 2022 into bank account of Ramesh. Ramesh has no knowledge of this and this cheque is not included in the deposits for the period 1st April 2021 to 31st March 2022 given above.*

You are required to draw up Ramesh's Statement of Affairs as at 31st March, 2021 and 31st March, 2022 respectively and work out his Profit or Loss for the year ended 31st March, 2021 and 31st March, 2022. ***(10 Marks)***

Answer

(a) **Books of Modern Store Delhi**

Nagpur Branch Stock A/c

Particulars	₹	Particulars	₹
To Opening stock	60,000	By Bank A/c (Cash Sales)	69,000
To Goods sent to branch A/c	1,50,000	By Branch Debtors A/c (Credit sales)	63,000
To Goods sent to branch A/c	1,800	By Goods sent to branch A/c (Return)	3,000
		By Branch adjustment A/c (Reduction in selling price)	1,500
		By Branch adjustment A/c (Normal Loss)	600

© The Institute of Chartered Accountants of India

		By Closing stock (including stock in transit of ₹ 1,800)	74,700
	2,11,800		2,11,800

Branch Debtors A/c

Particulars	₹	Particulars	₹
To Bal. b/d	40,000	By Cash/Bank A/c	48,000
To Branch Stock (Sales)	63,000	By Branch P&L A/c (Bad debts)	2,000
		By Branch P&L A/c (Discount)	1,500
		By Bal. c/d	51,500
	103,000		103,000

Branch Adjustment A/c

Particulars	₹	Particulars	₹
To Branch Stock Account (Reduction in selling price)	1,500	By Stock reserve A/c (60,000 X 60/160)	22,500
To Branch Stock Account (Normal loss*)	600	By Goods sent to branch A/c (Loading) (1,51,800 X 60/160)	56,925
To Goods sent to branch A/c (loading on returns) (3,000 X 60/160)	1,125		
To Branch P&L A/c	48,187		
To Stock reserve A/c (74,700 X 60/160)	28,013**		
	79,425		79,425

Note: * Alternatively, the loading of ₹ 225 on normal loss may be charged to Branch Adjustment A/c and cost ₹375 thereof may be charged to Branch P&L A/c.

** rounded off. Alternatively may be rounded off as ₹ 28,012.

Branch P&L A/c

Particulars	₹	Particulars	₹
To Branch expenses A/c	18,000	By Branch Adjustment A/c	48,187
To Bad debts A/c	2,000		

© The Institute of Chartered Accountants of India

To Discount A/c	1,500		
To Net Profit	26,687		
	48,187		48,187

(b) Statement of Affairs as on 31st March, 2021

Liabilities	₹	*Assets*	₹
Capital (bal. fig.)	3,23,400	Machinery	2,20,000
Sundry creditors	5,500	Inventory	20,900
		Debtors	1,100
		Cash at bank (W.N.1)	84,700
		Cash in hand	2,200
	3,28,900		3,28,900

Calculation of loss for 3 months (1.1.2021 to 31.3.2021)

	₹
Capital as on 31.3.2021	3,23,400
Add: Drawings for 2 months	1,540
	3,24,940
Less: Capital as on 1.1.2021	(3,30,000)
Loss for 3 months	5,060

Statement of Affairs as on 31st March, 2022

Liabilities	₹	*Assets*		₹
		Machinery	2,20,000	
Sundry Creditors	4,300	*Add:* Additions	66,000	2,86,000
		Inventory		31,900
		Debtors (3,200 – 2,700)		500
Capital (Bal. fig.)	3,60,800			
		Cash at bank (W.N.2)		43,400
		Cash in hand		3,300
	3,65,100			3,65,100

Statement of Profit and Loss for the year ended 31.3.2022

Particulars	₹
Capital as on 31.3.2022	3,60,800

© The Institute of Chartered Accountants of India

Add: Drawings (₹ 770 x 12)	9,240
	3,70,040
Less: capital as on 31.3.2021	(3,23,400)
Net profit for the year ended 31.3.22	46,640

Working Notes:

		₹
1.	**Bank balance as on 31.3.2021**	
	Balance as on 1.1.2021	3,30,000
	Less: Withdrawals during 1.1.2021 to 31.3.2021	(2,45,300)
	Balance as on 31.3.2021	84,700
2.	**Bank Balance as on 31.3.2022:**	
	Balance as on 1.4.2021	84,700
	Add: Deposits during the year (2,53,000 + 2,700)	2,55,700
		3,40,400
	Less: Withdrawals during the year	(2,97,000)
	Bank Balance as on 31.3.2022	43,400

Question 4

The following is the Trial Balance of Anmol Limited as on 31st March, 2022:

Debit Balance	*Amount (₹)*	*Credit Balances*	*Amount (₹)*
Purchases	*82,95,000*	*Sales*	*1,25,87,000*
Wages and Salaries	*12,72,000*	*Commission*	*72,500*
Rent	*2,20,000*	*Equity Share Capital*	*10,00,000*
Rates and Taxes	*50,000*	*General Reserve*	*10,00,000*
Selling & Distribution Expenses	*4,36,000*	*Surplus (P&L A/c) 01.04.2021*	*8,75,500*
Directors Fees	*32,000*	*Securities Premium*	*2,50,000*
Bad Debts	*38,500*	*Term Loan from Public Sector Bank*	*1,02,00,000*
Interest on Term Loan	*8,05,000*		
Land	*24,00,000*	*Trade Payables*	*55,08,875*
Factory Building	*36,80,000*	*Provision for Depreciation:*	
Plant and Machinery	*62,50,000*	*On Plant & Machinery*	*9,37,500*
Furniture and Fittings	*8,25,000*	*On Furniture and Fittings*	*82,500*
Trade Receivables	*64,75,000*	*On Factory Building*	*1,84,000*

© The Institute of Chartered Accountants of India

Advance Income Tax Paid	*37,500*	*Provision for Doubtful Debts*	*25,000*
Stock (1st April,2021)	*9,25,000*	*Bills Payable*	*1,25,000*
Bank Balances	*9,75,000*		
Cash on Hand	*1,31,875*		
Total	*3,28,47,875*	*Total*	*3,28,47,875*

Following information is provided:

(1) The Authorized Share Capital of the Company is 2,00,000 Equity Shares of ₹10 each. The Company has issued 1,00,000 Equity Shares of ₹10 each.

(2) Rent of ₹20,000 and Wages of ₹1,56,500 are outstanding as on 31st March, 2022.

(3) Provide Depreciation @ 10% per annum on Plant and Machinery, 10% on Furniture and Fittings and 5% on Factory Building on written down value basis.

(4) Closing Stock as on 31st March, 2022 is ₹11,37,500.

(5) Make a provision for Doubtful Debt @ 5% on Debtors.

(6) Make a provision of 25% for Corporate Income Tax.

(7) Transfer ₹1,00,000 to General Reserve.

(8) Term Loan from Public Sector Bank is secured against Hypothecation of Plant and Machinery. Installment of Term Loan falling due within one year is ₹17,00,000.

(9) Trade Receivables of ₹85,600 are outstanding for more than six months.

(10) The Board declared a dividend @10% on Paid up Share Capital on 5th April, 2022.

You are required to prepare Balance Sheet as on 31st March 2022 and Statement of Profit and Loss with Note to Accounts for the year ending 31st March, 2022 as per Schedule III of the Companies Act, 2013. Ignore previous years' figures. ***(20 Marks)***

Answer

Balance Sheet of Anmol Ltd. as at 31st March, 2022

Particulars	*Note No*	*₹*
Equity and Liabilities		
1 **Shareholders' funds**		
a Share capital	1	10,00,000
b Reserves and Surplus	2	24,76,462

© The Institute of Chartered Accountants of India

2	**Non-current liabilities**			
	a	Long-term borrowings	3	85,00,000
3	**Current liabilities**			
	a	Short term borrowings (Installment of term loan falling due in one year)		17,00,000
	b	Trade Payables	4	56,33,875
	c	Other current liabilities	5	1,76,500
	d	Short term provisions (provision for tax)		1,16,988
		Total		1,96,03,825
ASSETS				
1	**Non-current assets**			
	a	PPE	6	1,11,70,700
2	**Current assets**			
	a	Inventories		11,37,500
	b	Trade receivables	7	61,51,250
	c	Cash and bank balances	8	11,06,875
	d	Short term loans & advances (Advance tax paid)		37,500
				1,96,03,825

Statement of Profit and Loss of Anmol Ltd.
for the year ended 31st March, 2022

	Particulars	*Notes*	*Amount*
I.	Revenue from operations		1,25,87,000
II.	Other income (Commission income)		72,500
III.	Total Income (I + II)		1,26,59,500
IV.	Expenses:		
	Purchases of Inventory-in-Trade		82,95,000
	Changes in inventories of finished goods work-in-progress and Inventory-in-Trade	9	(2,12,500)
	Employee benefits expense	10	14,28,500
	Finance costs (interest on term loan)		8,05,000
	Depreciation		7,80,300
	Other operating expenses	11	10,95,250
	Total expenses		1,21,91,550

© The Institute of Chartered Accountants of India

V.	Profit (Loss) for the period (III - IV)		4,67,950
VI.	(-) Tax (25%)		(1,16,988)
VII.	PAT		3,50,962

Notes to accounts

			₹
1	Share Capital		
	Equity share capital		
	Authorized		
	2,00,000 equity shares of ₹ 10 each		20,00,000
	Issued & subscribed		
	1,00,000 equity shares of ₹ 10 each		10,00,000
2	Reserves and Surplus		
	General Reserve	10,00,000	
	Add: current year transfer	1,00,000	11,00,000
	Profit & Loss balance		
	Opening balance: Surplus P & L A/c	8,75,500	
	Profit for the year	3,50,962	
	Less: Appropriations:		
	Transfer to General reserve	(1,00,000)	11,26,462
	Securities premium		2,50,000
			24,76,462
3	Long-term borrowings		
	Term loan from public sector bank (Secured by hypothecation)		1,02,00,000
	Less: Installment of Term loan falling due within one year		(17,00,000)
	Total		85,00,000
4	Trade payables		
	Trade payables	55,08,875	
	Bills payable	1,25,000	56,33,875
5	Other current liabilities		
	Rent outstanding	20,000	
	Wages and Salaries Outstanding	1,56,500	1,76,500

© The Institute of Chartered Accountants of India

6	PPE (Note 2)		
	Land		24,00,000
	Factory Buildings		33,21,200
	Plant & Machinery		47,81,250
	Furniture & Fittings		6,68,250
	Total		1,11,70,700
7	Trade receivables		
	Debtors Outstanding for period exceeding 6 months	85,600	
	Other debts	63,89,400	
	Less: Provision for doubtful debt	(3,23,750)	61,51,250
8	Cash and bank balances		
	Cash and cash equivalents		
	Bank balance	9,75,000	
	Cash on hand	1,31,875	11,06,875
9	Changes in Inventories		
	Opening Inventory	9,25,000	
	Less: Closing Inventory	(11,37,500)	
	Change		(2,12,500)
10	Employee benefit expense		
	Wages and Salaries	12,72,000	
	Add: Wages and Salaries Outstanding	1,56,500	14,28,500
11	Other operating expenses		
	Rent	2,20,000	
	Add: outstanding	20,000	2,40,000
	Rates and Taxes		50,000
	Selling & Distribution expenses		4,36,000
	Bad debts		38,500
	Provision for Doubtful Debts (3,23,750-25,000)		2,98,750
	Director's fee		32,000
	Total		10,95,250

Note:

1. The final dividend will not be recognized as a liability at the balance sheet date (even if it is declared after reporting date but before approval of the financial statements) as per Accounting Standards. Hence, it has not been recognized in the financial statements for the year ended 31 March, 2022. Such dividends will be disclosed in notes only.

© The Institute of Chartered Accountants of India

2. **Calculation of depreciation:**

	Book value	Accumulated depreciation	WDV	Current year Depreciation	Current year WDV
Land	24,00,000	-	24,00,000	-	24,00,000
Factory building	36,80,000	1,84,000	34,96,000	1,74,800	33,21,200
Plant & Machinery	62,50,000	9,37,500	53,12,500	5,31,250	47,81,250
Furniture & Fittings	8,25,000	82,500	7,42,500	74,250	6,68,250
			Total	7,80,300	1,11,70,700

Question 5

(a) On 1st April, 2021, the following balances appeared in the books of Globe Limited (an unlisted company other than AIFI, Banking Company, NBFC and HFC):

(i) 50,000 9% Debentures of ₹100 each issued at par

(ii) Balance of Debenture Redemption Reserve (DRR) ₹5,00,000.

(iii) Debenture Redemption Reserve (DRR) Investment ₹5,00,000 represented by 8.75% Secured Bonds of the Government of India of ₹100 each.

Interest on Debentures was paid half- yearly on 30th of September and 31st March every year. On 31st May, 2021, the company purchased 8,000 Debentures of its own @ 98 (ex-interest) per debenture and cancelled them on the same date.

On 1st January,2022, it further acquired another 10,000 own Debentures @ ₹101 (cum - interest) per debenture and cancelled them on the same date.

The funds required for purchasing the aforesaid debentures were partly raised by selling off the DRR Investment.

On 30th March, 2022, the remaining investments were realized at par and the Debentures were redeemed on 31st March, 2022.

You are required to prepare the following accounts for the year ended 31st March, 2022:

(1) 9% Debentures Account.

(2) Debenture Redemption Reserve Account.

(3) Debenture Redemption Reserve Investment Account.

(4) Interest on Debentures Account. ***(12 Marks)***

(b) Grooming Enterprises has 2 Departments, Department A and Department B. Department A manufacture Dyed Thread which is used by Department B for its Clothes production. Total production of Department A is sold to Department B at Cost plus profit.

The following information is provided for year ending 31st March,2022:

© The Institute of Chartered Accountants of India

	Department A Amount in (₹)	*Department B Amount in (₹)*
Opening Stock	*1,25,000*	*4,20,000*
Purchases	*12,60,000*	*22,90,000 (Includes purchases from department A)*
Sales	*15,50,000*	*30,40,000*
Wages	*1,25,000*	*5,60,000*
Closing Stock	*3,47,500*	*5,36,000*

Both Opening & Closing Stocks of Department B consist 80% of Department A. Department A earned a Gross Profit of 20% in previous year.

Other information:

(a) Rent paid ₹ 60,000

(b) Carriage outward ₹ 40,000

(c) Other administrative expenses ₹ 1,55,000

You are required to prepare Departmental Trading and Profit & Loss account for the year ended 31st March, 2022. ***(8 Marks)***

Answer

(a) **In the book of Globe Ltd.**

9% Debentures Account

Date	Particulars	₹	Date	Particulars	₹
31.5.21	To Bank A/c* (Own Debentures Purchased)	784,000	1.4.21	By Bal b/d	50,00,000
	To Profit on cancellation of debentures	16,000			
1.1.22	To Bank A/c* (Own Debentures Purchased) (10,000x101) - 22,500	9,87,500			
	To Profit on cancellation of debentures	12,500			
31.3.22	To Bank	32,00,000			
		50,00,000			50,00,000

Note - Alternatively, this entry can also be routed through Own Debentures Account.

© The Institute of Chartered Accountants of India

Debenture Redemption Reserve Account

Date	Particulars	₹	Date	Particulars	₹
31.5.21	To General reserve	80,000	1.4.21	By Bal b/d	5,00,000
1.1.22	To General reserve	1,00,000			
31.3.22	To General reserve	3,20,000			
		5,00,000			5,00,000

Debenture Redemption Reserve Investment Account

Date	Particulars	₹	Date	Particulars	₹
1.4.21	To Bal b/d	5,00,000	31.5.21	By Bank A/c (8,000x100x15%)	1,20,000
1.4.21	To Bank A/c	2,50,000	1.1.22	By Bank A/c (10,000x100x15%)	1,50,000
			31.3.22	By Bank A/c (32,000x100x15%)	4,80,000
		7,50,000			7,50,000

Interest on Debentures Account

Date	Particulars	₹	Date	Particulars	₹
31.5.21	To Bank A/c (8,000x100x9%x2/12)	12,000	31.3.22	By P&L A/c	3,67,500
30.9.21	To Bank A/c (42,000 x 100 x 9% x 6/12)	1,89,000			
1.1.22	To Bank A/c (10,000x100x9%x3/12)	22,500			
31.3.22	To Bank A/c (32,000x100x9%x 6/12)	1,44,000			
		3,67,500			3,67,500

Working Note:

Additional Investment in Debenture Redemption Reserve Investment

Debenture redemption Reserve Investment required = 15% of ₹ 50,00,000 = ₹ 7,50,000

Debenture redemption Reserve Investment existing on 1/04/21 = 5,00,000

Additional Debenture redemption Reserve Investment required =

₹ 7,50,000 - ₹ 5,00,000 = ₹ 2,50,000

© The Institute of Chartered Accountants of India

(b) **In the books of Grooming enterprise**

Trading and P&L A/c for the year ended 31.3.22

Particulars	A	B	Total	Particulars	A	B	Total
To Op. stock	1,25,000	4,20,000	5,45,000	By Sales	15,50,000	30,40,000	45,90,000
To Purchase	12,60,000	22,90,000	35,50,000				
To Wages	1,25,000	5,60,000	6,85,000				
To Gross Profit	3,87,500	3,06,000	6,93,500	By Closing stock	3,47,500	5,36,000	8,83,500
	18,97,500	35,76,000	54,73,500		18,97,500	35,76,000	54,73,500
To Rent			60,000	By Gross Profit	3,87,500	3,06,000	6,93,500
To Carriage			40,000				
To Other administrative expenses			1,55,000				
To Net profit			4,38,500				
			6,93,500				6,93,500

General P& L Account

Particulars	₹	Particulars	₹
		By Net profit	4,38,500
To Closing stock reserve (W.N.)	1,07,200	By Opening stock reserve	67,200
To Net profit	3,98,500	(4,20,000X80%X20%)	
	5,05,700		5,05,700

Working Note:

Sr. No.	Particulars	Dept. A
(i)	Gross profit	3,87,500
(ii)	Sales	15,50,000
(iii)	GP ratio (i/ii)	25%
(iv)	Closing stock Dept. B (5,36,000X80%)	4,28,800
(v)	Stock reserve on closing stock (iii X iv)	1,07,200

Note:

The question is silent over distribution of indirect expenses into dept. A and dept B. In the answer given above, indirect expenses have been shown directly in General profit and loss A/c. Alternatively, Indirect expenses can be distributed equally or in the ratio of turnover between Dept A and Dept B in Departmental Profit and loss account.

© The Institute of Chartered Accountants of India

Question 6

*Answer any **four** of the following:*

(a) *Surabhi purchased a car on Hire Purchase from M/s Pawan Automobiles on 1st April, 2019. The Hire Purchase price was ₹ 3,00,000 and the same was payable in 5 half yearly installments of ₹ 60,000 each, the first installment being due on 1st October, 2019. Interest is payable @ 10% per annum and the same is included in the half yearly installment of ₹ 60,000,*

You are required to calculate the cash price of the car and the interest paid on each installment.

(b) *As on 1st April, 2021 opening Balance Sheet of Mr. Mohanty is showing the aggregate value of Assets, Liabilities and Equity ₹ 12 Lakhs, 3 Lakhs and 9 lakhs respectively.*

During the accounting period 01/04/2021 to 31/03/2022, Mr. Mohanty has the following transactions:

(1) *A liability of ₹ 50,000 was finally settled at a discount of 2%.*

(2) *Dividend earned @ 15% on 1,000 (F.V 100 each) Equity shares held @ ₹ 12,000.*

(3) *Rent of the premises paid ₹ 20,000.*

(4) *Mr. Mohanty withdrew ₹ 10,000 for personal purposes and also withdrew Goods worth ₹ 5,000 for personal purposes.*

(5) *₹ 15,000 were received against Bill Receivables.*

You are required to show the effect of the above transactions on Balance Sheet in the form of Assets - Liabilities = Equity equation after each transaction.

(c) *Given below are the extracts of Balance Sheet of Sea Chemicals Limited as on 31st March, 2022:*

Particulars	*Amount in ₹*
9% Redeemable Preference Share Capital	*10,00,000*
Calls in arears (Redeemable Preference Shares)	*20,000*
General Reserve	*7,00,000*
Securities Premium	*80,000*

It is provided that:

– *Preference Shares are of 100 each fully-called, due for immediate redemption at a premium of 5%.*

– *Calls-in-arrears are on account of final call on 1000 shares held by four members whose whereabouts are not known.*

© The Institute of Chartered Accountants of India

– *Balance of General Reserve and Securities Premium to be fully utilised for the purposes of redemption and the shortfall to be made good by issue of equity shares of ₹ 10 each at par.*

– *The redemption of preference shares was duly carried out.*

You are required to pass the necessary journal entries (narration not required) to give effect to the above redemption.

(d) *The following information is provided by Sarovar Limited, a Non-Investment company, incurring losses from past 2 years:*

Particulars	*Amount in (₹)*
Share Capital (Issued & Subscribed)	*1,05,73,000*
Capital Reserve	*90,000*
Securities Premium	*67,000*
Public Deposits	*14,50,000*
Trade Payables	*1,98,000*
Investment in other Co's Shares	*50,00,000*
Profit & Loss (Dr.)	*10,25,000*

Sarovar Limited has a one Whole time Director, Mr. Shyam.

You are required to calculate the effective capital and the maximum remuneration that can be paid to Mr. Shyam, if, no special resolution is passed at the General Meeting of the company for the payment of remuneration for a period not exceeding three years.

(e) *Explain the objective of 'Accounting Standards' in brief. State the advantages of setting Accounting Standards.* ***(4 parts x 5 Marks= 20 Marks)***

Answer

(a) Statement showing cash value of the machine acquired on hire-purchase basis

	Instalment Amount	*Interest @ 5% half yearly (10% p.a.) = 5/105 = 1/21 (in each instalment)*	*Principal Amount (in each instalment)*
	₹	₹	₹
5th Instalment	60,000	2,857	57,143
Less: Interest	2,857		
	57,143		
Add: 4th Instalment	60,000		
	1,17,143	5,578	54,422

© The Institute of Chartered Accountants of India

Less: Interest	5,578		(60,000-5578)
	1,11,565		
Add: 3rd instalment	60,000		
	1,71,565	8,170	51,830
Less: Interest	8,170		(60,000-8,170)
	1,63,395		
Add: 2nd instalment	60,000		
	2,23,395	10,638	49,362
Less: Interest	10,638		(60,000-10638)
	2,12,757		
Add: 1st instalment	60,000		
	2,72,757	12,988	47,012
Less: Interest	12,988		(60,000-12,988)
	2,59,769	40,231	2,59,769

The cash purchase price of machinery is ₹ 2,59,769.

Note: Rounding off has been done for the computed interest amounts.

(b) Effects of each transaction on Balance sheet of the trader is shown below:

Transactions	*Assets*	–	*Liabilities*	=	*Equity*
	₹ lakh		*₹ lakh*		*₹ lakh*
Opening	12	–	3	=	9
(1) Settlement of Creditors	12 – 0.49		3 – 0.50		9.0 + 0.01
	11.51	–	2.5	=	9.01
(2) Dividend earned	11.51 + 0.15				9.01+ 0.15
	11.66	–	2.5	=	9.16
(3) Rent paid	11.66 -0.20				9.16 -0.20
	11.46	–	2.5	=	8.96
(4) Drawings	11.46 -0.15				8.96 -0.15
	11.31	–	2.5	=	8.81
(5) *Money received against Bills receivables	11.31+0.15 -0.15		2.5		
	11.31	–		=	8.81

*No change as cash received from bills receivable will have impact on individual asset only (will reduce bill receivables with corresponding increase in cash).

© The Institute of Chartered Accountants of India

(c) Journal Entries

		₹	₹
9% Preference Share Capital A/c	Dr.	1,00,000	
To Calls in Arrears A/c			20,000
To Shares Forfeited A/c			80,000
(For Shares Forfeited because of non-payment of calls as holders are unknown)			
Bank A/c	Dr.	2,00,000	
To Equity Share Capital A/c			2,00,000
(Being the issue of 20,000 Equity Shares of ₹ 10 each at par as per Board's Resolution No.....dated....)			
General Reserve A/c	Dr.	7,00,000	
To Capital Redemption Reserve A/c			7,00,000
(For transfer to CRR for the amount not covered by the proceeds of fresh issue of equity shares)			
9% Preference Share Capital A/c	Dr.	9,00,000	
Premium on Redemption of Preference shares A/c	Dr.	45,000	
To Preference Shareholders A/c			9,45,000
(For amount payable to preference shareholders on redemption at 5% premium)			
Preference Shareholders A/c	Dr.	9,45,000	
To Bank A/c			9,45,000
(For amount paid to preference shareholders)			
Securities Premium A/c	Dr.	45,000	
To Premium on Redemption of Preference Shares A/c			45,000
(For writing off premium on redemption of preference shares)			

Working Note:

Number of Shares to be issued for redemption of Preference Shares:

Face value of shares redeemed	9,00,000
Less: Profit available for distribution as dividend:	
General Reserve	7,00,000
	2,00,000
Therefore, number of shares to be issued = ₹ 2,00,000/₹ 10= 20,000 shares.	

© The Institute of Chartered Accountants of India

Note: Securities premium has been utilized for the purpose of premium payable on redemption of preference shares as per the information given in the question assuming that the company referred in the question is not governed by Section 133 of the Companies Act, 2013 and the company is not required to comply with the prescribed Accounting Standards.

However, certain class of Companies whose financial statements comply with the Accounting Standards as prescribed under Section 133 of the Companies Act, 2013, can't apply the securities premium account for the purpose of premium on redemption of preference shares. Hence General Reserve is utilized instead of Securities premium for premium payable on redemption of preference shares. In that case, the solution will be given as follows:

Alternative answer

		₹	₹
9% Preference Share Capital A/c	Dr.	1,00,000	
To Calls in Arrears A/c			20,000
To Shares Forfeited A/c			80,000
(For Shares Forfeited because holders are unknown)			
Bank A/c	Dr.	2,45,000	
To Equity Share Capital A/c			2,45,000
(Being the issue of 24,500 Equity Shares of ₹ 10 each at par as per Board's Resolution No.....dated.....)			
General Reserve A/c	Dr.	6,55,000	
To Capital Redemption Reserve A/c			6,55,000
(For transfer to CRR for the amount not covered by the proceeds of fresh issue of equity shares)			
9% Preference Share Capital A/c	Dr.	9,00,000	
Premium on Redemption of Preference Shares A/c	Dr.	45,000	
To Preference Shareholders A/c			9,45,000
(For amount payable to preference shareholders on redemption at 5% premium)			
Preference Shareholders A/c	Dr.	9,45,000	
To Bank A/c			9,45,000
(For amount paid to preference shareholders)			

© The Institute of Chartered Accountants of India

General Reserve A/c	Dr.	45,000	
To Premium on Redemption A/c			45,000
(For writing off premium on redemption of preference shares)			

Working Note:

Number of Shares to be issued for redemption of Preference Shares:

Face value of shares redeemed	9,00,000
Less: Profit available for distribution as dividend:	
General Reserve (7,00,000 – 45,000 set aside for adjusting premium payable on redemption of preference shares)	6,55,000
	2,45,000
Therefore, number of shares to be issued = ₹ 2,45,000/₹ 10 = 24,500 shares.	

(d) Calculation of effective capital and maximum amount of monthly remuneration

	(₹)
Paid up share capital	1,05,73,000
Capital reserves	90,000
Securities premium	67,000
Public Deposits	14,50,000
(A)	1,21,80,000
Less: Investments	50,00,000
Accumulated losses not written off (P & L A/c Dr. balance)	10,25,000
(B)	(60,25,000)
Effective capital for the purpose of managerial remuneration (A-B)	61,55,000

Since Sarovar Ltd. is incurring losses and no special resolution has been passed by the company for payment of remuneration, managerial remuneration will be calculated on the basis of effective capital of the company. The effective capital of the company is less than 5 crores, therefore maximum remuneration payable to the Managing Director should be @ ₹ 60,00,000 per annum.

© The Institute of Chartered Accountants of India

(e) Accounting Standards are the written policy documents issued by Government relating to various aspects of measurement, treatment, presentation and disclosure of accounting transactions and events.

Following are the objectives of Accounting Standards:

a. Accounting Standards harmonize the diverse accounting policies and practices followed by different companies in India.

b. Accounting Standards facilitate the preparation of financial statements and make them comparable.

c. Accounting Standards give a sense of faith and reliability to the users.

The main advantages of setting accounting standards are as follows:

a. Accounting Standards make the financial statements of different companies comparable which helps investors in decision making.

b. Accounting Standards prevent any misleading accounting treatment.

c. Accounting Standards prevent manipulation of data by the management.

© The Institute of Chartered Accountants of India