KEY TO UNSOLVED QUESTIONS IN ACCOUNTS BOOK GROUP-1

CASH FLOW STATEMENT

Solution to illustration 1

Cash Flow Statement of ………..

for the year ended March 31, 2020 (Direct Method)

Particulars	₹	₹
Operating Activities:		
Cash received from sale of goods	1,40,000	
Cash received from Trade receivables	1,75,000	
Trade Commission received	50,000	
Payment for Cash Purchases	(1,20,000)	
Payment to Trade payables	(1,57,000)	
Office and Selling Expenses	(75,000)	
Cash generated from operations		13,000
Payment for Income Tax		(30,000)
Net Cash Flow used in Operating Activities		(17,000)
Investing activities:		
Sale of investments	30,000	
Interest and dividend	1,000	
Investment Purchased	(25,000)	
Net cash flow from investing activities		6,000
Financing activities:		
Loan from bank	1,00,000	
Repayment of loan	(75,000)	
Interest on loan	(10,000)	
Net Cash Flow from Financing Activities		15,000
Net increase in cash 6,000 + 15,000 – 17,000		4,000
Opening cash and cash equivalent		1,00,000
Total		1,04,000

Solution to illustration 2

Hills Ltd.

Cash Flow Statement for the year ended 31st March, 2020

(Using direct method)

		(₹)
Cash flows from operating activities		
Cash receipts from customers	27,83,000	
Cash payments to suppliers	(20,47,000)	
Cash paid to employees	(69,000)	
Other cash payments (for overheads)	(1,15,000)	
Cash generated from operations		5,52,000
Income taxes paid		(2,43,000)
Net cash flow from operating activities		3,09,000
Cash flows from investing activities		
Payments for purchase of fixed assets	(2,30,000)	
Proceeds from sale of fixed assets	1,28,000	
Net cash used in investing activities		(1,02,000)
Cash flows from financing activities		
Proceeds from issuance of share capital	3,00,000	
Bank loan repaid	(2,50,000)	
Dividend paid	(80,000)	
Net cash used in financing activities		(30,000)
Net increase in cash and cash equivalents		1,77,000
Cash and cash equivalents at beginning of period		35,000
Cash and cash equivalents at end of period		2,12,000

Solution to illustration 3

M/s MNT Ltd.

Cash Flow Statement for the year ended 31st March, 2020

(Using direct method)

Particulars	₹	₹
Cash flows from Operating Activities		
Cash sales (₹ 3,82,500/.30)	12,75,000	
Cash payments for trade payables	(4,60,000)	
Wages Paid	(4,92,500)	
Office and selling expenses	(75,000)	
Cash generated from operations		2,47,500
Income tax paid		(65,000)
Net cash generated from operating activities (A)		1,82,500
Cash flows from investing activities		
Sale of investments (7,00,000 + 20,000)	7,20,000	
Payments for purchase of Plant & machinery	(2,50,000)	
Net cash flow from investing activities (B)		4,70,000
Cash flows from financing activities		
Bank loan repayment (including interest)	(2,15,000)	
Dividend paid (including dividend distribution tax)	(30,000)	
Net cash used in financing activities (C)		(2,45,000)
Net increase in cash (A+B+C)		4,07,500
Cash and cash equivalents at beginning of the period		2,00,000
Cash and cash equivalents at end of the period		6,07,500

Solution to illustration 4

X Ltd.

Cash Flow Statement for the year ended 31st March, 2020

(Using direct method)

	₹ 000	**₹ 000**
Cash flows from operating activities		
Cash receipts from customers	2,800	
Cash payments to suppliers	(2,000)	
Cash paid to employees	(100)	
Cash payments for overheads	(200)	
Cash generated from operations		500
Income tax paid		(250)
Net cash generated from operating activities		250
Cash flows from investing activities		
Payments for purchase of fixed assets	(200)	
Proceeds from sale of fixed assets	100	
Net cash used in investing activities		(100)
Cash flows from financing activities		
Proceeds from issuance of equity shares	300	
Bank loan repaid	(300)	
Dividend paid	(50)	
Net cash used in financing activities		(50)
Net increase in cash		100
Cash at beginning of the period		50
Cash at end of the period		150

Solution to illustration 5

Gamma Ltd.

Cash Flow Statement for the year ended 31st March, 2020

(Using direct method)

Particulars	₹ in crores	₹ in crores
Cash flows from operating activities		
Cash sales (60% of 135)	81	
Cash receipts from Debtors [45+ (135x40%) - 50]	49	
Cash purchases (20% of 55)	(11)	
Cash payments to suppliers [21+ (55x80%) – 23]	(42)	
Salary paid to employees	(22)	
Cash payments for overheads (Adm. and selling)	(18)	
Cash generated from operations		37
Income tax paid		(8)
Net cash generated from operating activities		29
Cash flows from investing activities		
Sale of investments (12+ 2.40)	14.4	
Payments for purchase of fixed assets (21 – 10)	(11)	
Net cash flow from investing activities		3.4
Cash flows from financing activities		
Redemption of debentures (22-15)	(7)	
Interest paid	(1.5)	
Dividend paid	(11.7)	
Net cash used in financing activities		(20.2)
Net increase in cash		12.2
Cash at beginning of the period		6.0
Cash at end of the period		18.2

Working notes:

1. Debtor Account

Date	Particulars	₹	Date	Particulars	₹
01.04.19	To Balance b/d	45,00,000	31.03.20	By Bank A/c (bal fig)	49,00,000
31.03.20	To sales	54,00,000			

			31.03.20	By Balance c/d	50,00,000
		99,00,000			99,00,000

2. Creditors Account

Date	Particulars	₹	Date	Particulars	₹
31.03.20	To Bank	42,00,000	01.04.19	By Balance b/d	21,00,000
			31.03.20	By Purchases	44,00,000
31.03.20	To Balance c/d	23,00,000	31.03.20		
		68,00,000			65,00,000

Solution to illustration 6

Cash flow statement (using direct method) for the year ended 31st March, 2020

	(₹ in crores)	**(₹ in crores)**
Cash flow from operating activities		
Cash sales	262	
Cash collected from credit customers	134	
Cash paid to creditors (Refer Working Note)	(168)	
Cash purchases (220 x 20%)	(44)	
Cash paid to supplier of other consumables and services	(19)	
Payment to employees	(20)	
Cash from operations		145
Less: Income tax paid		(26)
Net cash generated from operating activities		119
Cash flow from investing activities		
Net Payment for purchase of Machine (25 – 15)	(10)	
Proceeds from sale of investments	16	

Net cash flow from investing activities		6
Cash flow from financing activities	(32)	
Redemption of Preference shares	24	
Proceeds from issue of Equity shares	(2)	
Debenture interest paid	(15)	
Dividend Paid		(25)
Net cash used in financing activities		100
Net increase in cash and cash equivalents		2
Add: Cash and cash equivalents as on 01.04.2019		102
Cash and cash equivalents as on 31.03.2020		

Working Note: Calculation of cash paid to suppliers of goods

	(₹ in Crores)
Opening Balance in creditors Account	84
Add: Purchases (220x .8)	176
Total	260
Less: Closing balance in Creditors Account	92
Cash paid to suppliers of goods	168

Solution to illustration 7

(i) Loans and advances given and interest earned

(1) to suppliers — Operating Cash flow

(2) to employees — Operating Cash flow

(3) to its subsidiaries companies — Investing Cash flow

(ii) Investment made in subsidiary company and dividend received

Investing Cash flow

(iii) Dividend paid for the year

Financing Cash Outflow

(iv) **<u>TDS on interest income earned on investments made</u>** - Investing Cash Outflow

(v) **<u>TDS on interest earned on advance given to suppliers -</u>** Operating Cash Outflow

(vi) **<u>Insurance claim received against loss of fixed asset by fire</u>**

Extraordinary item to be shown under a separate heading as ‘Cash inflow from investing activities’.

<u>Solution to illustration 8</u>

<u>An Extract of Cash Flow Statement for the year ending 31.03.2020</u>

	₹
Closing balance as per Profit & Loss A/c	90,000
Less: Opening balance as per Profit & Loss A/c.	(50,000)
Add: Goodwill amortisation	25,000
Add: Discount on issue of Debentures	10,000
Interest on Debentures	75,000
Net Cash from Operating Activities	1,50,000

<u>Cash flows from financing activities:</u>

Proceeds from debentures [2,50,000 – 35,000]	2,15,000
Interest paid on Debentures [less unpaid]	(70,000)
Net Cash from Financing Activities	1,45,000

<u>Working Note:</u>

(i) <u>Discount on issue of Debentures Account</u>

Particulars	₹	**Particular**	₹
To Balance b/d	90,000	By Profit & Loss A/c (w/o)	10,000
To 15% Debentures A/c (Bal. fig.)	35,000	By Balance c/d	1,15,000
	1,25,000		1,25,000

(ii) <u>15% Debentures Account</u>

Particulars	₹	**Particular**	₹
To Balance c/d	7,50,000	By Balance b/d	5,00,000
		By Bank A/c (Bal. fig)	2,15,000
		By Discount on issue of Debentures A/c	35,000

	7,50,000		7,50,000

Solution to illustration 9

Ryan Ltd.

Cash Flow Statement for the year ending 31st March, 2020

	₹	₹
Cash flows from operating activities		
Net profit before taxation	23,000	
Adjustments for:		
Depreciation	37,000	
Gain on sale of investments	(12,000)	
Loss on sale of plant assets	3,000	
Interest expense	23,000	
Interest income	(6,000)	
Operating profit before working capital changes	68,000	
Decrease in accounts receivable	8,000	
Increase in inventory	(34,000)	
Decrease in prepaid expenses	4,000	
Increase in accounts payable	7,000	
Increase in accrued liabilities	3,000	
Cash generated from operations	56,000	
Income taxes paid	(9,000)	
Net cash generated from operating activities		47,000
Cash flows from investing activities		
Purchase of plant	(1,20,000)	
Sale of plant	5,000	

Purchase of investments	(78,000)	
Sale of investments	1,02,000	
Interest received	6,000	
Net cash used in investing activities		(85,000)
Cash flows from financing activities		
Proceeds from issuance of share capital	1,50,000	
Repayment of bonds	(50,000)	
Interest paid	(23,000)	
Dividends paid	(8,000)	
Net cash from financing activities		69,000
Net increase in cash and cash equivalents		31,000
Cash and cash equivalents at the beginning of the period		15,000
Cash and cash equivalents at the end of the period		46,000

Investment A/c

Particulars	₹	**Particulars**	₹
To Balance b/d	1,27,000	By Bank	1,02,000
To P/L a/c	12,000		
To Bank account	78,000	By Balance c/d	1,15,000
	2,17,000		2,17,000

Plant and Machinery A/c

Particulars	₹	**Particular**	₹
To Balance b/d	5,05,000	By Bank	5,000
To Bank a/c (bal fig)	1,20,000	By Depreciation	2,000
To Bonds issued	1,00,000	By P/L A/c	3,000
		By Balance c/d	7,15,000
	7,25,000		7,25,000

Provision for Taxation A/c

Particulars	₹	Particular	₹
To Bank a/c (bal fig)	9,000	By Balance b/d	5,000
To Balance c/d	3,000	By P/L A/c	7,000
	12,000		12,000

Solution to illustration 10

Sun Ltd.

Cash Flow Statement for the year ended 31st March, 2020

	₹	₹
Cash flows from operating activities		
Net Profit before taxation	4,500	
Adjustments for:		
Depreciation	3,500	
Profit on sale of vehicles (1,700 – 1,000)	(700)	
Operating profit before working capital changes	7,300	
Increase in Trade receivables	(2,000)	
Increase in inventories	(3,000)	
Increase in Trade payables	1,500	
Cash generated from operations		3,800
Income taxes paid		(1,000)
Net cash generated from operating activities		2,800
Cash flows from investing activities		
Sale of vehicles	1,700	
Purchase of vehicles	(8,000)	
Purchase of fixtures	(7,000)	
Net cash used in investing activities		(13,300)

Cash flows from financing activities		
Issue of shares for cash	10,000	
Dividends paid	(1,000)	
Net cash from financing activities		9,000
Net decrease in cash and cash equivalents		(1,500)
Cash and cash equivalents at beginning of period (See Note)		9,500
Cash and cash equivalents at end of period (See Note)		8,000

Fixture A/c

Particulars	₹	**Particular**	₹
To Balance b/d	11,000	By Depreciation	1,000
To Bank a/c (bal fig)	7,000	By Balance c/d	17,000
	18,000		18,000

Vehicle A/c

Particulars	₹	**Particular**	₹
To Balance b/d	8,000	By Depreciation	2,500
To Bank a/c (bal fig)	8,000	By Bank (sales)	1,700
To P/L A/c	700	By Balance c/d	12,500
	16,700		16,700

Dividend Payable A/c

Particulars	₹	**Particular**	₹
To Bank a/c (bal fig)	1,000	By Balance b/d	1,000
		By Dividend	2,000
To Balance c/d	2,000		
	3,000		3,000

Cash and Cash Equivalents

	31.03.2020	**31.03.2019**
Bank and Cash	6,000	8,500
Short-term investments	2,000	1,000

Cash and cash equivalents	8,000	9,500

Solution to illustration 11

Star Oils Limited

Cash Flow Statement for the year ended 31st March, 2020

		(₹ in lakhs)
Cash flows from operating activities		
Net profit before taxation (25,000 + 5,000)	30,000	
Adjustments for :		
Depreciation	20,000	
Loss on sale of assets (Net)	40	
Profit on sale of investments	(100)	
Interest income on investments	(2,506)	
Interest expenses	10,000	
Operating profit before working capital changes	57,434	
Changes in working capital (Excluding cash and bank balance)	(56,081)	
Cash generated from operations	1,353	
Income taxes paid	(4,248)	
Net cash used in operating activities		(2,895)
Cash flows from investing activities		
Sale of assets (W.N.1)	145	
Sale of investments (27,765 + 100)	27,865	
Interest income on investments	2,506	
Purchase of fixed assets	(14,560)	
Investment in joint venture	(3,850)	
Expenditure on construction work-in progress	(34,740)	

Net cash used in investing activities		(22,634)
Cash flows from financing activities		
Proceeds from calls in arrear	2	
Receipts of grant for capital projects	12	
Proceeds from long-term borrowings	25,980	
Proceed from short-term borrowings	20,575	
Interest paid	(10,520)	
Dividend (including dividend tax) paid	(8,535)	27,514
Net increase in cash and cash equivalents		1985
Cash and cash equivalents at the beginning of the period		5,003
Cash and cash equivalents at the end of the period		6,988

Working note:

1.	Book value of the assets sold	185
	Less: Loss on sale of assets	(40)
	Proceeds on sale	145

Solution to illustration 12

By direct method

Computation of Cash Flow from Operating Activities

	₹ in lakhs	**₹ in lakhs**
Cash Receipts:		
Cash sales and collection from Trade receivables		
Sales + Opening Trade receivables – Closing Trade receivables (A)	4,150 + 250 - 400	4,000
Cash payments:		
Cash purchases & payment to Trade payables		
Purchases + Opening Trade payables – Closing Trade payables	2,400 + 230 - 250	2,380
Wages and salaries paid	800 + 40 - 50	790

Other expenses paid	200 + 10 - 20	190
Taxes paid – Advance tax		195
(B)		3,555
Cash flow from operating activities (A – B)		**445**

By indirect method

Computation of Cash Flow from Operating Activities

Profit before tax		710
Add: Non-cash items: Depreciation		100
Add: Interest: Financing cash outflow		60
Less: Interest and Dividend: Investment cash inflow		(100)
Less: Tax paid		(195)
Working capital adjustments		
Trade receivables (250-400)	(150)	
Inventories (180-200)	(20)	
Trade payables (250-230)	20	
Outstanding wages (50-40)	10	
Outstanding expenses (20-10)	10	(130)
Cash flow from operating activities		**445**

Solution to illustration 13

Cash Flow Statement of Mr. Zen as per AS 3

for the year ended 31.03.2020

			₹
(i)	**Cash flow from operating activities**		
	Net Profit (given)		3,60,000
	Adjustments for		
	Depreciation on Plant & Machinery (W.N.2)	1,44,000	
	Loss on Sale of Machinery (W.N.1)	16,000	1,60,000
	Operating Profit before working capital changes		5,20,000
	Decrease in inventories	80,000	

	Increase in trade receivables	(1,60,000)	
	Increase in trade payables	32,000	(48,000)
	Net cash generated from operating activities		4,72,000
(ii)	**Cash flow from investing activities**		
	Sale of Machinery (W.N.1)	40,000	
	Purchase of Land (8,80,000 – 6,00,000)	(2,80,000)	
	Net cash used in investing activities		(2,40,000)
(iii)	**Cash flow from financing activities**		
	Repayment of Mrs. Zen's Loan	(2,00,000)	
	Drawings (W.N.3)	(1,36,000)	
	Loan from Bank	80,000	
	Net cash used in financing activities		(2,56,000)
	Net decrease in cash		(24,000)
Opening balance as on 01.04.2019			80,000
Cash balance as on 31.03.2020			56,000

Working Notes:

1. **Plant & Machinery A/c**

Particulars	₹	Particulars	₹
To Balance b/d (6,40,000 + 2,00,000)	8,40,000	By Cash – Sales	40,000
		By Accumulated Depreciation A/c	24,000
		By Profit & Loss A/c – Loss on Sale (80,000 – 64,000)	16,000
		By Balance c/d (4,40,000+3,20,000)	7,60,000
	8,40,000		8,40,000

2. **Accumulated depreciation on Plant and Machinery A/c**

Particulars	₹	Particulars	₹
To Plant and Machinery A/c	24,000	By Balance b/d	2,00,000
To Balance c/d	3,20,000	By Profit & Loss A/c (Bal. fig.)	1,44,000
	3,44,000		3,44,000

3. To find out Mr. Zen's drawings:

	₹
Opening Capital	10,00,000
Add: Net Profit	3,60,000
	13,60,000
Less: Closing Capital	(12,24,000)
Drawings	1,36,000

Solution to illustration 14

As per AS 3 on 'Cash flow Statement', cash and cash equivalents consists of cash in hand, balance with banks and short-term, highly liquid investments. If investment*, of ₹10 lacs, made in debentures is for short-term period then it is an item of 'cash equivalents'.

However, if investment of ₹10 lacs made in debentures is for long-term period then as per AS 3, it should be shown as cash flow from investing activities.

*As per AS 3, an investment normally qualifies as a cash equivalent only when it has a short maturity of, say three months or less from the date of acquisition.

Solution to illustration 15

(i) Interest paid by financial enterprise

Cash flows from operating activities

(ii) TDS on interest received from subsidiary company

Cash flows from investing activities

(iii) Deposit with bank for a term of two years

Cash flows from investing activities

(iv) Insurance claim received against loss of fixed asset by fire

Extraordinary item to be shown as a separate heading under 'Cash flow from investing activities'

(v) Bad debts written off

It is a non-cash item which is adjusted from net profit/loss under indirect method, to arrive at net cash flow from operating activity.

Solution to illustration 16

Cash Flow Statement for the year ended 31.3.2020

	₹	₹
Cash flow from operating activities		
Cash received on account of trade receivables	3,50,000	
Cash paid on account of trade payables	(90,000)	

Cash paid to employees (salaries and wages)	(25,000)	
Other cash payments (overheads)	(15,000)	
Cash generated from operations		
Income tax paid	2,20,000	
Net cash generated from operating activities	(55,000)	1,65,000
<u>Cash flow from investing activities</u>		
Payment for purchase of fixed assets		
Proceeds from sale of fixed assets	(4,00,000)	
Net cash used in investment activities	70,000	(3,30,000)
<u>Cash flow from financing activities</u>		
Proceeds from issue of share capital		
Bank loan repaid	5,00,000	
Debentures redeemed	(2,50,000)	
Dividends paid	(50,000)	
Net cash used in financing activities	(1,00,000)	1,00,000
Net decrease in cash and cash equivalents		
Cash and cash equivalents at the beginning of the year		(65,000)
Cash and cash equivalents at the end of the year		80,000
		15,000

SOLUTIONS TO PRACTICE PROBLEMS

Solution 1:

Grow More Ltd

Cash Flow Statement for the year ended 31st March, 2020

Cash Flow from Operating Activities

		₹
Increase in balance of Profit and Loss Account (1,00,000 – 60,000)	40,000	
Dividend payable	2,00,000	
Provision for taxation (W.N.1)	80,000	
Transfer to General Reserve (2,00,000 – 1,50,000)	50,000	
Depreciation (W.N.2)	1,25,000	
Profit on sale of Plant and Machinery	(15,000)	
Operating Profit before Working Capital changes	4,80,000	
Increase in Inventories	(2,00,000)	
Decrease in Trade receivables	2,00,000	
Decrease in Trade payables	(1,20,000)	
Cash generated from operations	3,60,000	
Income tax paid	(50,000)	
Net Cash from operating activities		3,10,000

Cash Flow from Investing Activities

Purchase of fixed assets	(3,45,000)	
Expenses on building (6,00,000 – 4,00,000)	(2,00,000)	
Increase in investments	(1,00,000)	
Sale of old machine	35,000	
Net Cash used in investing activities		(6,10,000)

Cash Flow from Financing Activities

Proceeds from issue of shares (10,00,000 – 8,00,000)	2,00,000	
Proceeds from issue of debentures	2,00,000	
Dividend paid	(1,00,000)	
Net cash used in financing activities		3,00,000
Net increase in cash or cash equivalents		NIL
Cash and Cash equivalents at the beginning of the year		2,00,000

Cash and Cash equivalents at the end of the year		2,00,000

Working Notes:

1. **Provision for taxation account**

Particulars	₹	Particulars	₹
To Cash (Paid)	50,000	By Balance b/d	70,000
To Balance c/d	1,00,000	By Profit and Loss A/c	80,000
		(Balancing figure)	
	1,50,000		1,50,000

2. **Plant and Machinery account**

Particulars	₹	Particulars	₹
To Balance b/d	5,00,000	By Depreciation	1,25,000
To Profit and Loss A/c	15000	By Cash (sale of machine)	35,000
(profit on sale of machine)		By Balance c/d	7,00,000
To Cash (Balancing figure)	3,45,000		
	8,60,000		8,60,000

Solution 2:

Cash Flow Statement of Ryan Limited

for the year ended 31st March, 2020

	₹	₹
Cash flow from operating activities		
Net Profit before taxation (W.N.1)	2,45,000	
Adjustment for		
Depreciation (W.N.3)	1,35,000	
Profit on sale of plant (W.N.3)	(40,000)	
Profit on sale of investments (W.N.3)	(20,000)	
Interest on debentures (W.N.4)	18,000	
Operating profit before working capital changes	3,38,000	
Increase in inventory	(5,000)	
Increase in trade receivables	(25,000)	
Increase in Trade payables	5,000	
Increase in accrued liabilities	10,000	

Cash generated from operations	3,23,000	
Income taxes paid (W.N.8)	(1,00,000)	
Voluntary separation payments (W.N.9)	(1,10,000)	
Net cash generated from operating activities		1,13,000
<u>Cash flow from investing activities</u>		
Proceeds from sale of land (W.N.2)	1,50,000	
Proceeds from sale of plant (W.N.3)	90,000	
Proceeds from sale of investments (W.N.4)	70,000	
Purchase of plant (W.N.3)	(3,50,000)	
Purchase of investments (W.N.4)	(25,000)	
Pre-acquisition dividend received (W.N.4)	5,000	
Net cash used in investing activities		(60,000)
<u>Cash flow from financing activities</u>		
Proceeds from issue of equity shares (6,00,000 – 5,00,000)	1,00,000	
Proceeds from issue of debentures (2,00,000 – 1,00,000)	1,00,000	
Redemption of preference shares	(2,00,000)	
Dividends paid	(60,000)	
Interest paid on debentures	(18,000)	
Net cash used in financing activities		(78,000)
Net decrease in cash and cash equivalents		(25,000)
Cash and cash equivalents at the beginning of the year		90,000
<u>Cash and Cash equivalents at the end of the year</u>		65,000

<u>Working Notes:</u>

1.

	₹
Net profit before taxation	
Retained profit	70,000
Less: Balance as on 31.03.2019	(50,000)
	20,000
Provision for taxation	1,35,000
Dividend payable	90,000

	2,45,000

2. **Land and Building Account**

Particulars	₹	Particulars	₹
To Balance b/d	2,00,000	By Cash (Sale)	1,50,000
To Capital reserve (Profit on sale)	30,000	By Balance c/d	1,50,000
To Capital reserve (Revaluation profit)	70,000		
	3,00,000		3,00,000

3. **Plant and Machinery Account**

Particulars	₹	Particulars	₹
To Balance b/d	5,00,000	By Cash (Sale)	90,000
To Profit and loss account	40,000	By Depreciation	1,35,000
To Debentures	1,00,000	By Balance c/d	7,65,000
To Bank	3,50,000		
	9,90,000		9,90,000

4. **Investments Account**

Particulars	₹	Particulars	₹
To Balance b/d	80,000	By Cash (Sale)	70,000
To Profit and loss account	20,000	By Dividend (Pre-acquisition)	5,000
To Bank (Balancing figure)	25,000	By Balance c/d	50,000
	1,25,000		1,25,000

5. **Capital Reserve Account**

Particulars	₹	Particulars	₹
To Balance c/d	1,00,000	By Profit on sale of land	30,000
		By Profit on revaluation of land	70,000
	1,00,000		1,00,000

6. **General Reserve Account**

Particulars	₹	Particulars	₹
To Voluntary separation cost	50,000	By Balance b/d	2,50,000

To Capital redemption reserve	1,00,000		
To Balance c/d	1,00,000		
	2,50,000		2,50,000

7. **Dividend payable Account**

Particulars	**₹**	**Particulars**	**₹**
To Bank (Balancing figure)	60,000	By Balance b/d	60,000
To Balance c/d	90,000	By Profit and loss account	90,000
	1,50,000		1,50,000

8. **Provision for Taxation Account**

Particulars	**₹**	**Particulars**	**₹**
To Bank (Balancing figure)	1,00,000	By Balance b/d	60,000
To Balance c/d	95,000	By Profit and loss account	1,35,000
	1,95,000		1,95,000

9. **Voluntary Separation Payments Account**

Particulars	**₹**	**Particulars**	**₹**
To Balance b/d	65,000	By General reserve	50,000
To Bank (Balancing figure)	1,10,000	By Balance c/d	1,25,000
	1,75,000		1,75,000

Solution 3:

New Light Ltd.

Cash Flow Statement for the year ended 31st March, 2020

A.	**Cash Flow from operating activities**	**₹**	**₹**
	Profit after appropriation		
	Increase in profit and loss A/c after inventory adjustment		
	[₹3,00,000 – (₹2,40,000 + ₹24,000)]	36,000	
	Transfer to general reserve	1,60,000	
	Dividend payable	1,60,000	

	Provision for tax	3,40,000	
	Net profit before taxation and extraordinary item	6,96,000	
	Adjustments for:		
	Depreciation	3,60,000	
	Loss on sale of fixed assets	20,000	
	Decrease in value of fixed assets	16,000	
	Premium on redemption of preference share capital	6,000	
	Premium on redemption of debentures	6,000	
	Interest on debentures (2,80,000 X 9%)	25,200	
	Operating profit before working capital changes	**11,29,200**	
	Increase in current liabilities (₹5,20,000 –₹4,80,000)	40,000	
	Increase in other current assets		
	[₹13,10,000 – (₹ 11,10,000 + ₹24,000)]	(1,76,000)	
	Cash generated from operations	9,93,200	
	Income taxes paid	(3,60,000)	
	Net Cash generated from operating activities		6,33,200
B.	**Cash Flow from investing activities**		
	Purchase of fixed assets (W.N.3)	(8,56,000)	
	Proceeds from sale of fixed assets (W.N.3)	1,00,000	
	Proceeds from sale of investments (W.N.2)	1,20,000	
	Net Cash from investing activities		(6,36,000)
C.	**Cash Flow from financing activities**		
	Proceeds from issuance of share capital	4,00,000	
	Redemption of preference share capital (₹1,20,000 + ₹6,000)	(1,26,000)	
	Redemption of debentures (₹ 1,20,000 + ₹ 6,000)	(1,26,000)	

	Dividend paid	(1,20,000)	
	Interest on debenture paid	(25,200)	
	Net Cash from financing activities		28,00
	Net increase/decrease in cash and cash equivalent during the year		Nil
	Cash and cash equivalent at the beginning of the year		10,000
	Cash and cash equivalent at the end of the year		10,000

Assumption: Debenture in preference shares were redeemed on 01.04.2019.

Working Notes:

1. Revaluation of inventory will increase opening inventory by ₹ 24,000.

   2,16,000/90 x 10 = ₹ 24,000

   Therefore, opening balance of other current assets would be as follows:

   ₹ 11,10,000 + ₹ 24,000 = ₹ 11,34,000

Due to under valuation of inventory, the opening balance of profit and loss account be increased by ₹24,000.

The opening balance of profit and loss account after revaluation of inventory will be

₹ 2,40,000 + ₹ 24,000 = ₹ 2,64,000

2. Investment Account

Particulars	**₹**	**Particulars**	**₹**
To Balance b/d	4,00,000	By Bank A/c (Balancing figure being investment sold)	1,20,000
To Capital reserve A/c (Profit on sale of investments)	40,000	By Balance c/d	3,20,000
	4,40,000		4,40,000

3. Fixed Assets Account

Particulars	**₹**	**Particulars**	**₹**	**₹**
To Balance b/d	32,00,000	By Bank A/c (sale of assets)	1,00,000	
To Bank (Balancing figure being assets purchased)	8,56,000	By Accumulated depreciation A/c	80,000	
		By Profit and loss A/c (loss on sale of assets)	20,000	2,00,000

		By Accumulated depreciation A/c	40,000	
		By Profit and Loss A/c	16,000	56,000
		(assets written off)		
		By Balance c/d		38,00,000
	40,56,000			40,56,000

4. Accumulated Depreciation Account

	₹		₹
To Fixed assets A/c	80,000	By Balance b/d	9,20,000
To Fixed assets A/c	40,000	By Profit and Loss A/c	3,60,000
To Balance c/d	11,60,000	(depreciation for the period)	
	12,80,000		12,80,000

Solution 4:

Cash Flow Statement of ABC Ltd. for the year ended 31.03.2020

Cash flows from Operating Activities	**₹**	**₹**
Net Profit	22,40,000	
Add: Adjustment For Depreciation (₹7,90,000 – ₹6,10,000)	1,80,000	
Operating Profit Before Working Capital Changes	24,20,000	
Add: Decrease in Inventories (₹ 20,10,000 –₹ 19,20,000)	90,000	
Increase in Provision for Doubtful Debts (₹ 4,20,000 – ₹1,50,000)	2,70,000	
	27,80,000	
Less: Increase in Current Assets		
Trade Receivables (₹ 30,60,000 – ₹23,90,000) 6,70,000		
Prepaid Expenses (₹ 1,20,000 – ₹90,000) 30,000		
Decrease in Current Liabilities:		
Trade Payables (₹8,80,000 – ₹8,20,000) 60,000		

Expenses Outstanding (₹3,30,000 – ₹2,70,000) 60,000	(8,20,000)	
Net Cash from Operating Activities		19,60,000
Cash Flows from Investing Activities		
Purchase of Plant & Equipment (₹40,70,000 – ₹27,30,000)	13,40,000	
Net Cash Used in Investing Activities		(13,40,000)
Cash Flows from Financing Activities		
Bank Loan Raised (₹3,00,000 – ₹1,50,000)	1,50,000	
Issue of Debentures	9,00,000	
Payment of Dividend (₹12,00,000 – ₹1,50,000)	(10,50,000)	
Net Cash Used in Financing Activities		Nil
Net Increase in Cash During the Year		6,20,000
Add: Cash and Cash Equivalents as on 01.04.2019 (₹15,20,000 + ₹11,80,000)		27,00,000
Cash and Cash Equivalents as on 31.03.2020 (₹18,20,000 + ₹15,00,000)		33,20,000

Plant & Machinery A/c

	₹		₹
To Balance b/d	27,30,000		
To Bank (purchases)	13,40,000	By Balance c/d	40,70,000
	40,70,000		40,70,000

Accumulated Depreciation Account

	₹		₹
		By Balance b/d	6,10,000
To Balance c/d	7,90,000	By P&L A/c	1,80,000
	7,90,000		7,90,000

Trade Receivable

	₹		₹
To Balance b/d	23,90,000	By Provision for Bad debts	2,30,000
To Credit sales	6,70,000	By Balance c/d	28,30,000
	30,60,000		30,60,000

Provision for Bad Debts

	₹		₹
To Trade Receivable A/c	2,30,000	By Balance b/d	1,50,000
To Balance c/d	1,90,000	By P&L A/c	2,70,000
	4,20,000		4,20,000

Solution 5:

Cash flow Statement for the year ending 31st March, 2020

		Particulars	**₹**	**₹**
I		**Cash Flow from Operating Activities**		
	A.	Closing balance as per Profit and Loss Account		27,000
		Less: Opening balance as per Profit and Loss Account		(18,000)
		Add: Dividend declared during the year		37,000
		Add: Interim dividend paid during the year		10,000
		Add: Transfer to reserve		10,000
		Add: Provision for Tax		32,000
	B.	Net profit before taxation, and extra-ordinary item		98,000
	C.	Add: Items to be added		
		Depreciation	18,000	
		Loss on sale of Plant	3,000	
		Goodwill written off	13,000	34,000
	D.	Less: Dividend Income		(1,500)
	E.	Operating profit before working capital changes [B + C - D]		1,30,500
	F.	Add: Decrease in Current Assets and Increase in Current Liabilities		
		Decrease in Inventories	7,000	
		Increase in Trade Payables	21,000	28,000
	G.	Less: Increase in Trade Receivables		(33,000)

	H	Cash generated from operations (E+F-G)		1,25,500
	I	Less: Income taxes paid		(28,000)
	J	Net Cash from (used in) operating activities		97,500
II.		**Cash Flows from investing activities:**		
		Purchase of Plant		(1,34,000)
		Sale of Land		50,000
		Sale of plant		12,000
		Purchase of investments		(25,600)
		Dividend Received		2,100
		Net cash used in investing activities		(95,500)
III.		**Cash Flows from Financing Activities:**		
		Proceeds from issue of equity share capital		1,00,000
		Redemption of preference shares		(50,000)
		Interim Dividend (inclusive of DDT) paid		(10,000)
		Final dividend (inclusive of DDT) paid		(27,000)
		Net cash from financing activities		13,000
IV.		**Net increase in cash and cash equivalents (I+II+III)**		15,000
V.		**Cash and cash equivalents at beginning of period**		17,000
VI.		**Cash and cash equivalents at end of period (IV+V)**		32,000

1. Land and Building Account

Particulars	**₹**	**Particulars**	**₹**
To Balance b/d	1,00,000	By Bank A/c (Sale)	50,000
To Capital Reserve A/c (Profit on sale/revaluation)	25,000	By Balance c/d	75,000
	1,25,000		1,25,000

2. Plant and Machinery Account

Particulars	**₹**	**Particulars**	**₹**
To Balance b/d	90,000	By Depreciation A/c	18,000
To Bank A/c (Purchase)	1,34,000	By Bank A/c (sale)	12,000
		By Profit and Loss A/c (Loss on sale)	3,000
		By Balance c/d	1,91,000
	2,24,000		2,24,000

3. Investments Account

Particulars	₹	Particulars	₹
To Balance b/d	10,000	By Bank A/c (Div. received)	600
To bank A/c (Purchase)	25,600	By Balance c/d	35,000
	35,600		35,600

Solution 6:

Cash flow statement consists of: (a) Cash in hand and deposits repayable on demand with any bank or other financial institutions and (b) Cash equivalents, which are short term, highly liquid investments that are readily convertible into known amounts of cash and are subject to insignificant risk or change in value.

Cash flows are inflows (i.e. receipts) and outflows (i.e. payments) of cash and cash equivalents. Any transaction, which does not result in cash flow, should not be reported in the cash flow statement. Movements within cash or cash equivalents are not cash flows because they do not change cash as defined by AS 3 "Cash Flow Statements" which is sum of cash, bank and cash equivalents.

In the given case, due to increase in rate of foreign exchange by 75 paise, there is increase (change) in bank balance. This increase of ₹ 18,750 (25,000 x 0.75) is not a cash flow because neither there is any cash inflow nor there is any cash outflow. Therefore, this change in bank balance amounting ₹ 18,750 need not be disclosed in Cash Flow Statement of Ruby exports.

The net increase/decrease in Cash/Cash equivalents in the Cash Flow Statements are stated exclusive of exchange gains and losses. The resultant difference between Cash and Cash Equivalents as per the Cash flow statement and that recognized in the balance sheet is reconciled in the note on cash flow statements.

Solution 7:

Cash Flow Statement as per AS 3

Cash flows from operating activities:		₹ in lacs
Net profit before tax provision		72,000
Add: Non cash expenditures:		
Depreciation	48,000	
Loss on sale of assets	96	
Interest expenditure (non-operating activity)	24,000	72,096
Less: Non cash income		1,44,096
Amortisation of capital grant received	(20)	
Profit on sale of investments (non-operating income)	(240)	
Interest income from investments (non-operating income)	(6,000)	6,260

Operating profit		1,37,836
Less: Increase in working capital		(1,34,580)
Cash from operations		3,256
Less: Income tax paid		(10,200)
Net cash generated from operating activities		(6,944)
Cash flows from investing activities:		
Sale of assets (444 – 96)	348	
Sale of investments (66,636 + 240)	66,876	
Interest income from investments	6,000	
Purchase of fixed assets	(44,184)	
Expenditure on construction work	(83,376)	
Net cash used in investing activities		(54,336)
Cash flows from financing activities:		
Grants for capital projects	36	
Long term borrowings	1,11,732	
Interest paid	(26,084)	
Dividend paid	(20,404)	
Net cash from financing activities		65,280
Net increase in cash		4,000
Add: Cash and bank balance as on 01.04.2019		12,000
Cash and bank balance as on 31.03.2020		16,000

EXAMINATION QUESTIONS

Nov 2019 (New Course)

Question.1. (a) **(5 Marks)**

<u>Solution:</u>

<u>Computation of cash flow from investing activities</u>

for the year ended 31st March, 2020

(Using direct method)

Particulars	**₹**	**₹**
<u>Cash flows from investing activities</u>		
Unsecured loans given to associates	(5,00,000)	
Interest on loan received from associates	70,000	
Pre-acquisition dividend received	52,600	
Interest received on investment	82,000	
TDS on interest received (Note-1)	(8,200)	
Sale of fixed Assets (90,000-9,600)	80,400	
Cash used in investing activity before extra-ordinary item		(2,23,200)
<u>Extra-Ordinary Item</u>		
Insurance claim received for loss of machinery (Note-2)		55,000
Net cash used in investing activities		(1,68,200)

Purchase of Debentures is redeemable within 3 months hence shall be treated as cash equivalent.

Note:

1. If tax is related to investing activity, it will be shown under investing activity instead of operating activity. Further as per para 21 gross amount should be shown instead of net amount i.e. ₹82,000

2. Extra ordinary items shall be shown separately as per para 28 & 29 of AS-3

28. The cash flows associated with extraordinary items should be classified as arising from operating, investing or financing activities as appropriate and separately disclosed.

29. The cash flows associated with extraordinary items are disclosed separately as arising from operating, investing or financing activities in the cash flow statement, to enable users to understand their nature and effect on the present and future cash flows of the enterprise. These disclosures are in addition to the separate

disclosures of the nature and amount of extraordinary items required by Accounting Standard (AS) 5, Net Profit or Loss for the Period, Prior Period Items and Changes in Accounting Policies.

3. No impact on cash flow of acquiring machinery by issue of shares

Nov 2019 (Old Course)

Question.1. (a) **(5 Marks)**

Solution:

Computation of cash and cash equivalent

for the year ended 31st March, 2020

Particulars	**₹**
Balance as per the Bank Statement (25,000 – 15,000)	10,000
Fixed Deposit created on 01-11-2019 and maturing on 15-04-2020	Nil
Short Term Investment in highly liquid Sovereign Debt Mutual Fund on 01-03-2020	1,00,000
Bank Balance in a Foreign Currency Account in India ($1,000 x 70)	70,000
Cash and cash equivalent as on 31.03.2020	1,80,000

Notes:

1. As per paragraph 6, investment in shares in excluded from cash equivalent.

2. As per AS-3, foreign currency cash flows shall be dealt with as per paragraph 25, 26 & 27.

25. Cash flows arising from transactions in a foreign currency should be recorded in an enterprise's reporting currency by applying to the foreign currency amount the exchange rate between the reporting currency and the foreign currency at the date of the cash flow. A rate that approximates the actual rate may be used if the result is substantially the same as would arise if the rates at the dates of the cash flows were used. The effect of changes in exchange rates on cash and cash equivalents held in a foreign currency should be reported as a separate part of the reconciliation of the changes in cash and cash equivalents during the period.

26. Cash flows denominated in foreign currency are reported in a manner consistent with Accounting Standard (AS) 11, The Effects of Changes in Foreign Exchange Rates. This permits the use of an exchange rate that approximates the actual rate. For example, a weighted average exchange rate for a period may be used for recording foreign currency transactions.

27. Unrealised gains and losses arising from changes in foreign exchange rates are not cash flows. However, the effect of exchange rate changes on cash and cash equivalents held or due in a foreign currency is reported in the cash flow statement in order to reconcile cash and cash equivalents at the beginning and the end of the period. This amount is presented separately from cash flows from operating, investing and financing activities and includes the differences, if any, had those cash flows been reported at the end-of-period exchange rates.

Difference amount in above case is ($1,000 x 1 = ₹1,000)

Question. 3. (a) **(10 Marks)**

Solution:

ABC Ltd.
Cash Flow Statement for the year ended 31st March, 2020

(Using direct method)

Particulars	**₹**	**₹**
Cash Flows from Operating Activities		
Cash sales (₹ 270 lakh x 50%)	135,00,000	
Cash purchases (60 lakh x 20%)	(12,00,000)	
Salary Paid	(12,00,000)	
Administrative expenses (assumed paid)	(18,00,000)	
Amount received from Debtors (40+135-45)	130,00,000	
Amount paid to creditors (20+48-23)	(45,00,000)	
Cash generated from operations before taxes		178,00,000
Income tax paid (1,00,000+80,000-70,000)		(1,10,000)
Net cash generated from operating activities (A)		176,90,000
Cash flows from investing activities		
Sale of investments ₹ (10,00,000 + 2,50,000)	12,50,000	
Sale of Plant & machinery	3,50,000	
Purchase of Plant and machinery (50,00,000-12,50,000- 2,00,000- 70,00,000)	(34,50,000)	
Net cash from investing activities (B)		(18,50,000)
Cash flows from financing activities:		
Redemption of debentures (11,00,000-9,00,000)	(2,00,000)	
Interest on debentures paid (10,00,000 x 15%)	(1,50,000)	
Dividend paid (including dividend distribution tax)	(12,00,000)	
Net cash used in financing activities (C)		(15,50,000)

Net increase in Cash (A+B+C)		142,90,000
Cash and cash equivalents at beginning of the period		5,00,000
Cash and cash equivalents at end of the period		147,90,000

Working Note:

1. Provision for tax account

Date	Particulars	₹	Date	Particulars	₹
31.03.20	To Bank A/c (bal fig)	1,10,000	01.04.19	By balance b/d	1,00,000
31.03.20	To Balance c/d	70,000	31.03.20	By P/L A/c	80,000
		1,80,000			1,80,000

2. Plant and Machinery Account

Date	Particulars	₹	Date	Particulars	₹
01.04.19	To Balance b/d	50,00,000	31.03.20	By Depreciation A/c	12,50,000
31.03.20	To P & L A/c (Profit on sale)	1,50,000	31.03.20	By Bank A/c (sale)	3,50,000
31.03.20	To Bank A/c (Purchase) (bal fig)	34,50,000			
			31.03.20	By Balance c/d	70,00,000
		86,00,000			86,00,000

3. Debtor Account

Date	Particulars	₹	Date	Particulars	₹
01.04.19	To Balance b/d	40,00,000	31.03.20	By Bank A/c (bal fig)	130,00,000
31.03.20	To sales	135,00,000			
			31.03.20	By Balance c/d	45,00,000
		175,00,000			175,00,000

4. Creditors Account

Date	Particulars	₹	Date	Particulars	₹
31.03.20	To Bank	45,00,000	01.04.19	By Balance b/d	20,00,000
			31.03.20	By Purchases	48,00,000
31.03.20	To Balance c/d	23,00,000	31.03.20		
		68,00,000			68,00,000

5. 15% Debenture Account

Date	Particulars	₹	Date	Particulars	₹

31.03.20	To Equity Shares	9,00,000	01.04.19	By Balance b/d	10,00,000
31.03.20	To Bank	2,00,000	31.03.20	By Premium on redemption	1,00,000
		11,00,000			**11,00,000**

May 2019 (New Course)

Question 5 (b) **(10 Marks)**

Solution:

(i) **ABC Ltd.**

Cash Flow Statement for the year ended 31st March, 2020

(Using direct method)

Particulars	**₹**	**₹**
Cash Flows from Operating Activities		
Cash sales (₹ 3,75,000/25%)	15,00,000	
Less: Cash Payments for trade payables	(6,10,000)	
Wages Paid	(5,55,000)	
Office and selling expenses ₹ (35,000 + 15,000)	(50,000)	
Cash generated from operations before taxes		2,85,000
Income tax paid		(55,000)
Net cash generated from operating activities (A)		2,30,000
Cash flows from investing activities		
Sale of investments ₹ (8,20,000 + 20,000)	8,40,000	
Payments for purchase of Plant & machinery	(3,50,000)	
Net cash from investing activities (B)		4,90,000
Cash flows from financing activities:		
Bank loan repayment (including interest)	(2,05,000)	
	(40,000)	

Dividend paid (including dividend distribution tax)		
Net cash used in financing activities (C)		(2,45,000)
Net increase in Cash (A+B+C)		4,75,000
Cash and cash equivalents at beginning of the period		2,25,000
Cash and cash equivalents at end of the period		7,00,000

(ii) 'Cash Flow from Operating Activities' by indirect method

		₹
Net Profit for the year before tax and extraordinary items		2,80,000
Add: Non-cash and Non-Operating Expenses:		
Depreciation		60,000
Interest Paid		5,000
Less: Non-Cash and Non-Operating Incomes:		
Profit on sale of investments		(20,000)
Net Profit after adjustment for Non-Cash Items		3,25,000
Less: Decrease in trade payables	15,000	
Increase in inventory	25,000	(40,000)
Cash generated from operation before taxes		2,85,000

Working Note:

Calculation of net profit earned during the year

	₹	₹
Gross profit		3,75,000
Less: Office expenses, selling expenses	50,000	
Depreciation	60,000	
Interest Paid	5,000	(1,15,000)
		2,60,000
Add: Profit on sale of investments		20,000
Net profit before tax		2,80,000

May 2019 (Old Course)

Question 1 (b) **(5 Marks)**

Solution:

a.	Brokerage paid on purchased of investments	Investing Activities
b.	Underwriting Commission paid	Financing Activities
c.	Trading Commission received	Operating Activities
d.	Proceeds from sale of investment	Investing Activities
e.	Purchase of goodwill	Investing Activities
f.	Redemption of Preference shares	Financing Activities
g.	Rent received from property held as investment	Investing Activities
h.	Interest paid on long term borrowings	Financing Activities
i.	Marketable securities	Cash equivalent
j.	Refund of Income tax received	Operating activities

Nov-2018 (Old Course)

Question 3 (a) **(8 Marks)**

Solution:

Tom & Jerry Ltd.

Cash Flow Statement for the year ended 31st March, 2020

	Cash flows from operating activities		₹
	Cash receipts from customers	1,65,96,000	
	Cash payments to suppliers	(1,22,04,000)	
	Cash paid to employees	(4,14,000)	
	Other cash payments (for Selling & Administrative expenses)	(6,90,000)	
	Cash generated from operations	32,88,000	
	Income taxes paid	(14,58,000)	
	Net cash from operating activities		18,30,000
	Cash flows from investing activities		
	Payments for purchase of fixed asset	(13,80,000)	
	Proceeds from sale of fixed assets	7,68,000	
	Purchase of investments	(78,000)	
	Sale of investments	1,02,000	
	Net cash used in investing activities		(5,88,000)
	Cash flows from financing activities		
	Proceeds from issuance of share capital	18,00,000	
	Bank loan repaid	(15,00,000)	
	Interest paid on bank loan	(3,00,000)	
	Dividend paid	(4,80,000)	
	Net cash used in financing activities		(4,80,000)
	Net increase in cash and cash equivalents		7,62,000
	Cash and cash equivalents at beginning of period		2,10,000
	Cash and cash equivalents at end of period		9,72,000

May-2018 (New Course)

Question 6. (e) **(5 Marks)**

Solution:

(a) Operating Activities: Items 1 and 5.

(b) Investing Activities: Items 3,7 and 9

(c) Financing Activities: Items 4,6,8 and 10

(d) Cash Equivalent: 2

May 2018 (Old Course)

Question 1. (a) **(5 Marks)**

Solution:

Cash Flow Statement of M/s GAGAN Ltd. for the year ended March 31, 2020

A	**Cash Flow from Operating Activities**	
	Net Profit as per Profit & Loss A/c	--------
	Add: Premium on Redemption of Debentures	1,650
	Add: Interest on 10% Debentures	11,000
	Less: Interest on 10% Investments	(35,000)
B	**Cash Flow from Investing Activities**	
	Interest on Investments [35,000-10,500]	24,500
C	**Cash Flow from Financing Activities**	
	Interest on Debentures paid [11,000 - (1,175 - 275)]	(10,100)
	Redemption of Debentures [(1,10,000 - 77,000) at 5% premium]	(34,650)

Note: Debtors written off against provision for doubtful debts does not require any further adjustment in Cash Flow Statement.

Nov-2017 (Old Course)

Question 5 (a) **(12 Marks)**

Answer:

Harry Ltd.

Cash flow statement

For the year ended 31st march, 2020

	(₹)	(₹)
Cash flows from operating activities		
Net Profit before taxation	8,000	

Adjustments for:		
Depreciation ₹ (1,000 + 2,000 +5,000)	8,000	
Profit on sale of Investment	(8,000)	
Profit on sale of car	(1,400)	
Operating profit before working capital changes	6,600	
Increase in Trade receivables	(2,000)	
Increase in inventories	(6,000)	
Increase in Trade payables	3,000	
Cash generated from operations	1,600	
Income taxes paid	(2,000)	
Net cash generated from operating activities (A)		
Cash flows from investing activities		
Sale of car	3,400	
Purchase of car	(16,000)	
Sale of Investment	10,000	
Purchase of Investment	(6,000)	
Purchase of Furniture & fixtures	(14,000)	
Net cash used in investing activities (B)		(22,600)
Cash flows from financing activities		
Issue of shares for cash	20,000	
Dividends paid*	(2,000)	
Net cash from financing activities(C)		18,000
Net decrease in cash and cash equivalents (A + B +C)		(5,000)
Cash and cash equivalents at beginning of period		17,000
Cash and cash equivalents at end of period		12,000

* Dividend proposed for the year ended 31st March, 2019 amounting ₹ 2,000 must have been declared and paid in the year 2019-20. Hence, it has been considered as cash outflow for preparation of cash flow statement of 2019-20.

Working notes:

1. Calculation of income taxes paid

	₹
Income tax expense for the year	3,000

Add: Income tax liability at the beginning of the year	2,000
	5,000
Less: Income tax liability at the end of the year	(3,000)
	2,000

2. Calculation of Fixed assets acquisitions

	Furniture & Fixtures (₹)	**Car (₹)**
W.D.V. at 31.03.2020	34,000	25,000
Add back: Depreciation for the year	2,000	5,000
Disposals	—	2,000
	36,000	32,000
Less: W.D.V. at 31.03.2019	(22,000)	(16,000)
Acquisitions during 2019-2020	14,000	16,000

SOLUTION TO EXAMINATION QUESTIONS

January 2021

Question 1 (a) **(5 Marks)**
Solution:

(a) As per 12 "Accounting for government grants", grants related to depreciable assets, if treated as deferred income are recognized in the profit and loss statement on a systematic and rational basis over the useful life of the asset.

Amount of depreciation and grant to be recognized in the profit and loss account each year

Depreciation per year:

	₹ in lakhs
Cost of the Asset	130
Less: Salvage value	(60)
	70
Depreciation per year(70lakhs/4)	17.50

₹ 17.50 Lakhs depreciation will be recognized for the year ending 31st March, 2017, 31st March, 2018, 31st March, 2019 and 31st March, 2020.

Amount of grant recognized in Profit and Loss account each year:
40 lakhs /4 years = ₹ 10 Lakhs for the year ending 31st March, 2017, 31st March, 2018, 31st March, 2019 and 31st March, 2020.

Question 1 (b) **(5 Marks)**
Solution:

(b) As per AS 13 (Revised) 'Accounting for Investments', where long-term investments are reclassified as current investments, transfers are made at the lower of cost and carrying amount at the date of transfer. And where investments are reclassified from current to long term, transfers are made at lower of cost and fair value on the date of transfer.

Accordingly, the re-classification will be done on the following basis:

(i) In this case, carrying amount of investment on the date of transfer is less than the cost; hence this re-classified current investment should be carried at ₹ 9 lakhs in the books.

(ii) The carrying / book value of the long-term investment is same as cost i.e., ₹ 14 lakhs. Hence this long-term investment will be reclassified as current investment at book value of ₹ 14 lakhs only.

(iii) In this case, reclassification of current investment into long-term investments will be made at ₹ 12 lakhs as cost are less than its market value of ₹ 13.5 lakhs.

(iv) Market value of the investment is ₹ 16.5 lakhs, which is lower than its cost i.e., ₹ 18 lakhs. Therefore, the transfer to long term investments should be done in the books at the market value i.e., ₹ 16.5 lakhs.

Question 1 (c) **(5 Marks)**
Solution:

(c) As per AS 2 (Revised) "Valuation of Inventories", materials and other supplies held for use in the production of inventories are not written down below cost if the finished products in which they will be incorporated are expected to be sold at cost or above cost. However, when there has been a decline in the price of materials and it is estimated that the cost of the finished products will exceed net realizable value, the materials are written down to net realizable value. In such circumstances, the replacement cost of the materials may be the best available measure of their net realizable value. In the given case, selling price of product P is ₹ 266 and total cost per unit for production is ₹ 295.

Hence the valuation will be done as under:

(i) 900 units of raw material X will be written down to replacement cost as market value of finished product is less than its cost, hence valued at ₹ 80 per unit.

(ii) 400 units of partly finished goods will be valued at 216 per unit i.e., lower of cost (₹ 245) or Net realizable value ₹ 216 (Estimated selling price ₹ 266 per unit less additional cost of ₹ 50).

(iii) 800 units of finished product P will be valued at NRV of ₹ 266 per unit since it is lower than cost ₹ 295.

Valuation of Total Inventory as on 31.03.2019:

	Units	**Cost (₹)**	**NRV/Replacement cost**	**Value = units x cost or NRV whichever is less (₹)**
Raw material X	900	100	80	72,000
Partly finished goods	400	245	216	86,400
Finished goods P	800	295	266	2,12,800
Value of Inventory				3,71,200

Question 1 (d) **(5 Marks)**

Solution:

(d) 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.

However, at the option of an entity, exchange differences arising on reporting of long-term foreign currency monetary items at rates different from those at which they were initially recorded during the period, or reported in previous financial statements, in so far as they relate to the acquisition of a non-depreciable capital asset can be accumulated in a "Foreign Currency Monetary Item Translation Difference Account" in the enterprise's financial statements and amortized over the balance period of such long-term asset/liability, by recognition as income or expense in each of such periods.

	Foreign Currency Rate	**₹**
Debtors		
Initial recognition US $12,500 (9,00,000/72)	1 US$ = ₹ 72	9,00,000
Rate on Balance sheet date	1 US $ = ₹ 73.50	
Exchange Difference Gain US $ 12,500 X (73.50-72)		18,750
Treatment: Credit Profit and Loss A/c by ₹ 18,750 Long term Loan		
Initial recognition US $ 1,03,448.28 (75,00,000/72.50)	1 US $ = ₹ 73.50	75,00,000
Rate on Balance sheet date	1 US $ = ₹ 73.50	
Exchange Difference Loss after adjustment of exchange gain on repayment of ₹ 5,00,000 ₹ 67,987.48 [82,171.88 (US $ 96,356.08 X ₹ 73.5 less ₹ 70,00,000) less profit 14,184.40 [US $ 7,092.2 (5,00,000/70.5) X ₹ 2)] NET LOSS Treatment: Credit Loan A/c and Debit FCMITD A/C or Profit and Loss A/c by ₹ 67,987.48		67,987.48*

Thus, Exchange Difference on Long term loan amounting ₹ 67,987.48 may either be charged to Profit and Loss A/c or to Foreign Currency Monetary Item Translation Difference Account but exchange difference on debtors amounting ₹ 18,750 is required to be transferred to Profit and Loss A/c.

NOTE 1: *Exchange Difference Loss (net of adjustment of exchange gain on repayment of ₹ 5,00,000) has been calculated in the above solution. Alternative considering otherwise also possible.

NOTE 2: Date of sales transaction of ₹ 9 lakhs has not been given in the question and hence it has been assumed that the transaction took place during the year ended 31 March 2020.

Question 2(a) **(10 Marks)**

Solution:

(a) Calculation of correct Departmental Profit or Losses

	Department Spares (₹)	Department Service (₹)	Department Repair (₹)
Profit after charging Manager's Commission	(38,000)	50,400	72,000
Add: Manager's Commission (1/9)	5,000(Minimum)	5,600	8,000
	(33,000)	56,000	80,000
Less: Unrealized profit on Stock (WN)	(1,382)		(4,000)
Profit Before Manager's Commission	(34,382)	56,000	76,000
Less: Manager's Commission 10%	(5,000)	(5,600)	(7,600)
Correct Profit after Manager's Commission	(39,382)	50,400	68,400

Working Note:

	Department Spares (₹)	Department Service (₹)	Department Repair (₹)	Total (₹)
Unrealized Profit of:				
Department Spares		21,000X5/105 = 1,000	4202X10/110 = 382	1,382
Department Repair		44000X10/110 = 4000		4,000

Question 2(b) **(10 Marks)**

Solution:

(b) Trading and Profit & Loss Account for the year ended 31-03-2020

	₹	₹		₹
To opening Inventory		38,600	By Sales	8,54,000
To Purchases		6,13,750	By Closing Inventory	55,700
To Gross Profit c/d (b.f.)		2,57,350		
		9,09,700		9,09,700
To Salaries (75,000+14,000-12,000)		77,000	By Goss Profit b/d	2,57,350
To Rent		11,800	By Interest on investment 9,750 + 450)	10,200
To General expenses		22,500		
To Depreciation:				
Machinery @ 10%	8,500			
Furniture @ 10%	2,450	10,950		
To Bad Debts	7,200			
To Provision for doubtful debts	7,000	14,200		

To Balance being profit carried to Capital A/c (b.f.)		1,31,100		
		2,67,550		2,67,550

Balance Sheet as on 31st March, 2020

Liabilities	₹	₹	Assets	₹	₹
A. Adamjee's Capital			Machinery	85,000	
on 1st April, 2019	3,32,150		Less: Depreciation	(8,500)	76,500
Add: Fresh Capital	50,000		Furniture	24,500	
Add: Profit for the year	1,31,100		Less: Depreciation	(2,450)	22,050
	5,13,250				
Less: Drawings	(96,000)	4,17,250	Inventory-in-trade		55,700
			Sundry debtors	3,57,200	
Sundry creditors		2,08,200	Less: Provision for		
Outstanding expenses		14,000	Doubtful debts	(14,200)	3,43,000
			Investment (including accrued interest ₹ 450)		85,450
			Cash at bank		36,600
			Cash in hand		20,150
		6,39,450			6,39,450

Working Notes:

1. Balance sheet as on 1-4-2019

	₹		₹
Sundry creditors	60,200	Machinery	85,000
Capital (balancing figure)	3,32,150	Furniture	24,500
Outstanding salaries	12,000	Inventory	38,600
		Sundry debtors	1,55,000
		Investments	85,000
		Bank balance (from Cash statement)	16,250
	4,04,350		4,04,350

2. Total Debtors Account

		₹			₹
1.4.19	To Balance b/d	1,55,000	31.3.20	By Cash	4,81,000
31.3.20	To Credit Sales (1,70,800/20×80)	6,83,200	31.3.20	By Bad debts	7,200
		12,000		By Balance c/d (Bal. fig.)	3,50,000
		8,38,200			8,38,200

3. Total Creditors Account

		₹			₹
31.3.20	To Cash	3,43,000	1.4.19	To Balance b/d	60,200
31.3.20	To Balance c/d (Bal. Fig.)	2,08,200	31.3.20	To Credit Sales (1,70,800/20×80)	4,91,000
		5,51,200			5,51,200

Question 3 (a) **(10 Marks)**

Solution:

(a) Investment Account-Equity Shares in K Ltd.

Date		No. of Shares	Dividend ₹	Amount ₹	Date		No. of Shares	Dividend ₹	Amount ₹
1.4.19	To Bal. b/d	8,000	-	1,20,000	20.1.20	By Bank (Dividend) [8,000×10×20] and [2,000×10×20%]		16,000	4,000
1.9.19	To Bank	2,000	-	28,000	1.2.20	By Bank	8,000		1,12,000
30.9.19	To Bonus issue	4,000		-					
31.12.19	To Bank (Right) (W.N.1)	2,000	-	25,000	31.3.20	By Balance c/d (W.N.3)	8,000		84,500
20.1.20	To Profit & Loss A/c (Dividend income)		16,000						
1.2.20	To P&L A/c (Profit on sale)			27,500					
		16,000	16,000	2,00,500			16,000	16,000	2,00,500

Working Notes:

1. **Right shares**

No. of right shares issued = (8,000 + 2,000 + 4,000)/ 7 X 2= 4,000

No. of right shares subscribed = 4,000 x 50% = 2,000 shares

Value of right shares issued = 2,000 x ₹12.50 = ₹ 25,000

No. of right shares sold = 2,000 shares

Sale of right shares = 2,000 x ₹ 8 = ₹ 16,000 to be credited to statement of profit and loss

2. **Cost of shares sold — Amount paid for 16,000 shares**

	₹
(₹1,20,000 + ₹ 28,000 + ₹ 25,000)	1,73,000
Less: Dividend on shares purchased on Sept.1 (since the dividend pertains to the year ended 31st March, 2019, i.e., the pre-acquisition period)	(4,000)
Cost of 16,000 shares	1,69,000
Cost of 8,000 shares (Average cost basis)	84,500
Sale proceeds (8,000 X ₹14)	1,12,000
Profit on sale	27,500

3. **Value of Investment at the end of the year**

Assuming investment as current investment, closing balance will be valued based on lower of cost or net realizable value.

Here, Net realizable value is ₹13 per share i.e., 8,000 shares x ₹ 13 = ₹ 1,04,000 and cost = 84,500.
Therefore, value of investment at the end of the year will be ₹ 84,500.

Question 3 (b) **(10 Marks)**

Solution:

(b) Memorandum Trading Account for the Period 1st April, 2019 to 31st Dec 2019

		₹		₹
To Opening Stock		1,50,000	By Sales (6,10,000 - 10,000)	6,00,000
To Purchases	4,20,000		By Consignment stock	25,000

Less: Tools purchased	(5,000)		By Closing Stock (Bal. fig.)	1,32,000
Goods distributed as Charity	(4,000)			
Cost of goods taken by proprietor	(8,000)			
		4,03,000		
To Wages (90,000 – 6,000)		84,000		
To Gross Profit [20% of Sales)		1,20,000		
		7,57,000		7,57,000

* 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 concern and, hence, there was no loss of such stock.

	₹
Value of Stock destroyed by fire	1,32,000
Less: Salvaged Stock	(31,000)
Loss of stock	1,01,000

Note:

Since policy amount is less than value of stock on date of fire, average clause will apply. Therefore, claim amount will be computed by applying the formula:

Claim = $\frac{\text{Insured value}}{\text{Total cost}}$ × Loss suffered

Claim amount = ₹ 1,01,000/1,32,000×1,00,000 = ₹ 76,51,5(Rounded off)

NOTE: The average rate of 20% has been given in the question. In the above solution, Gross Profit is calculated @ 20% on sales. Alternative answer considering Gross Profit of 20% is also possible.

Question 4 (a) **(8 Marks)**

Solution:

(a) **Journal Entries in the books of A Ltd.**

Date	**Particulars**		**Amount Dr. ₹**	**Amount Cr. ₹**
1.5.2019	Bank A/c	Dr.	80,00,000	
	To Debenture Application A/c			80,00,000
	(Application money received on 80,000 debentures @ ₹100 each)			
1.6.2019	Debenture Application A/c	Dr.	80,00,000	
	Underwriters A/c	Dr.	20,00,000	
	To 15% Debentures A/c			1,00,00,000
	(Allotment of 80,000 debentures to applicants and 20,000 debentures to underwriters)			
	Underwriting Commission	Dr.	2,00,000	
	To Underwriters A/c			2,00,000
	(Commission payable to underwriters @ 2% on ₹ 1,00,00,000)			
	Bank A/c	Dr.	18,00,000	
	To Underwriters A/c			18,00,000
	(Amount received from underwriters in settlement of account)			
01.06.2019	Debenture Redemption Investment A/c	Dr.	6,00,000	
	To Bank A/c			6,00,000

	(100,000 X 100 x 15% X 40%) (Being Investments made for redemption purpose)			
30.9.2019	Debenture Interest A/c	Dr.	5,00,000	
	To Bank A/c			5,00,000
	(Interest paid on debentures for 4 months @ 15% on ₹ 1,00,00,000)			
31.10.2019	15% Debentures A/c	Dr.	60,00,000	
	To Equity Share Capital A/c			10,00,000
	To Securities Premium A/c			50,00,000
	(Conversion of 60% of debentures into shares of ₹ 60 each with a face value of ₹ 10)			
31.3.2020	Debenture Interest A/c	Dr.	3,75,000	
	To Bank A/c			3,75,000
	(Interest paid on debentures for the half year) (Refer working note below)			

Working Note:

Calculation of Debenture Interest for the half year ended 31st March, 2020

On ₹ 40,00,000 for 6 months @ 15% = ₹3,00,000

On ₹ 60,00,000 for 1 months @ 15% = ₹ 75,000

₹ 3,75,000

Question 4 (b) **(12 Marks)**

Solution:

(b)

S Ltd.

Cash Flow Statement for the year ended 31st March, 2020

	₹	₹
Cash flows from operating activities		
Net profit before taxation*		30,00,000
Adjustments for:		
Depreciation on PPE	7,00,000	
Discount on debentures	45,000	
Profit on sale of investments	(25,000)	
Interest income on investments	(70,000)	
Interest on debentures	4,35,000	
Stock adjustment	1,64,000	
{14,76,000 less 16,40,000(14,76,000/90X100)}		
Operating profit before working capital changes		12,49,000
Changes in working capital		42,49,000
(Excluding cash and bank balance):		
Less: Increase in inventory	(2,90,000)	
{16,40,000(14,76,000/90X100) less 13,50,000}		
Add: Decrease in Trade receivables	13,800	
Increase in trade payables	2,600	
Increase in o/s expenses	4,400	(2,69,200)
Cash generated from operations		39,79,800
Less: Income taxes paid		(12,80,000)
Net cash generated from operating activities		26,99,800

Cash flows from investing activities		
Sale of investments	3,75,000	
Interest received	70,000	
Payments for purchase of fixed assets (7,00,000 – 6,00,000)	(1,00,000)	
Net cash used in investing activities		3,45,000
Cash flows from financing activities		
Redemption of Preference shares	(21,00,000)	
Issue of shares	7,20,000	
Interest paid	(4,35,000)	
Dividend paid	(11,00,000)	
Net cash used in financing activities		(29,15,000)
Net increase in cash		1,29,800
Cash at beginning of the period		2,40,700
Cash at end of the period		3,70,500

Question 5 (a) **(12 Marks)**

Solution:

(a) **Journal Entries**

Date	Particulars		Dr. (₹)	Cr. (₹)
	Bank A/c To Equity Share Capital A/c (Being the issue of 8,450 Equity Shares of ₹ 10 each as per Board's Resolution No…. dated…….)	Dr.	84,500	84,500
	9% Redeemable Preference Share Capital A/c Premium on Redemption of Preference Shares A/c To Preference Shareholders A/c (Being the amount paid on redemption transferred to Preference Shareholders Account)	Dr. Dr.	2,00,000 20,000	 2,20,000
	Bank A/c Profit and Loss A/c (loss on sale) A/c To Investment A/c (Being investment sold at loss of ₹ 4,500)	Dr. Dr.	40,500 4,500	 45,000
	Preference Shareholders A/c To Bank A/c (Being the amount paid on redemption of preference shares)	Dr.	2,20,000	 2,20,000
	Profit & Loss A/c To Premium on Redemption of Preference Shares A/c (Being the premium payable on redemption is adjusted against Profit & Loss Account)	Dr.	20,000	 20,000
	General Reserve A/c Profit & Loss A/c To Capital Redemption Reserve A/c (Being the amount transferred to Capital Redemption Reserve Account)	Dr. Dr.	80,000 35,500	 1,15,00

Balance Sheet as on…….[Extracts]

	Particulars	**Notes No.**	**₹**
	EQUITY AND LIABILITIES		
1.	Shareholders' funds	1	3,84,500
	a) Share capital	2	1,70,500

	b) Reserves and Surplus		
	ASSETS		
2.	Current Assets		
	Cash and cash equivalents (1,95,000 + 84,500 + 40,500 – 2,20,000)		1,00,000

Notes to accounts

1.	Share Capital	
	38,450 Equity shares (30,000 + 8,450) of ₹10 each fully paid up	3,84,500
2.	Reserves and Surplus	
	General Reserve	40,000
	Profit and loss account	NIL
	Capital Redemption Reserve	1,15,500
	Investment Allowance Reserve	15,000
		1,70,500

Working Note:

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

Face value of shares redeemed		₹ 2,00,000
Less: Profit available for distribution as dividend:		
General Reserve: ₹ (1,20,000-40,000)	₹ 80,000	
Profit and Loss (60,000 less 20,000 set aside for adjusting premium payable on redemption of Pref. shares less 4,500 loss on sale of investments)	₹ 35,500	
		₹ (1,15,500)
		₹ 84,500

Therefore, No. of shares to be issued = 84,500/₹10 = 8,450 shares.

Question 5 (b) **(8 Marks)**

Solution:

(b) **Calculation of interest**

	Total (₹)	**Interest in each instalment (1)**	**Cash price in each instalment (2)**
Cash Price	1,20,000		
Less: Down Payment	(32,433)	Nil	₹ 32,433
Balance due after down payment	87,567		
interest/Cash Price of 2nd instalment	-	₹ 87,567x10/100 = 8,757	₹ 23,100 – ₹ 8,757 = ₹ 14,343
Less: Cash price of 1st instalment	(14,343)		
Balance due after 1st instalment	73,224		
Interest/cash price of 2nd instalment	-	₹ 73,224x 10/100 = ₹ 7322	₹ 23,100 - ₹ 7,322= ₹ 15,778
Less: Cash price of 2nd instalment	(15,778)		
Balance due after 2nd instalment	57,446		
Interest/Cash price of 3rd instalment	-	₹57,446 x 10/100 = ₹ 5745	₹ 23,100 - ₹ 5745 = ₹ 17,355
Less: Cash price of 3rd instalment	(17,355)		
Balance due after 3rd instalment	40,091		

Interest/Cash price of 4th instalment	-	₹ 40,091x10/100 = ₹ 4,009	₹ 23,100 - ₹ 4,009= ₹ 19,091
Less: Cash price of 4th instalment	(19,091)		
Balance due after 4th instalment	21,000		
Interest/Cash price of 5th instalment	-	₹21,000 x10/100 = ₹ 2,100	₹ 23,100 – ₹ 2,100 = ₹ 21,000
Less: Cash price of 5th instalment	(21,000)		
Total	Nil	₹27,933	₹ 1,20,000

Total interest can also be calculated as follow:
(Down payment + instalments) – Cash Price = ₹ [32,433 +(23,100 x 5)] – ₹1,20,000 = ₹ 27,933

KM Ltd. Account in the books of Jai Ltd

Date		Particulars	₹	Date		Particulars	₹
1.1. 2016	To	Bank A/c	32,433	1.1.2016	By	Machine A/c	1,20,000
31.12.2016	To	Bank A/c	23,100	31.12.2016	By	Interest A/c	8,757
31.12.2016	To	Balance c/d	73,224				
			1,28,757				1,28,757
31.12.2017	To	Bank A/c	23,100	1.1.2017	By	Balance b/d	73,224
31.12.2017	To	Balance c/d	57,446	31.12.2017	By	Interest A/c	7,322
			80,546				80,546
31.12.2018	To	Bank A/c	23,100	1.1.2018	By	Balance b/d	57,446
31.12.2018	To	Balance c/d	40,091	31.12.2018	By	Interest A/c	5,745
			63,191				63,191
31.12.2019	To	Bank A/c	23,100	1.1.2019	By	Balance b/d	40,091
31.12.2019	To	Balance c/d	21,000	31.12.2019	By	Interest A/c	4,009
			44,100				44,100
31.12.2020	To	Bank A/c	23,100	1.1.2020	By	Balance b/d	21,000
				31.12.2020	By	Interest A/c	2,100
			23,100				23,100

Question 6 (a) **(5 Marks)**

Solution:

(a) Financial capital maintenance at historical cost: Under this convention, opening and closing assets are stated at respective historical costs to ascertain opening and closing equity. If retained profit is greater than or equals to zero, the capital is said to be maintained at historical costs. This means the business will have enough funds to replace its assets at historical costs. This is quite right as long as prices do not rise.

Maximum amount withdrawn by Kishore in year 2019-20 if Financial capital is maintained at historical cost

Particulars	**Financial Capital Maintenance at Historical Cost (₹)**
Closing equity (₹ 30 x 75,000 units)	22,50,000 represented by cash
Opening equity	75,000 units x ₹ 20 = 15,00,000
Permissible drawings to keep Capital intact	7,50,000 (22,50,000 – 15,00,000)

Thus ₹ 7,50,000 is the maximum amount that can be withdrawn by Kishore in year 2019-20 if Financial capital is maintained at historical cost.

Question 6 (b) **(5 Marks)**

Solution:

(b) **Calculation of net profit u/s 198 of the Companies Act, 2013**

	₹	₹
Balance from Trading A/c		38,15,890
Add: Subsidies received from Government		2,50,000
		40,65,890
Less: Administrative, selling and distribution expenses (4,99,200 + 1,18,200 + 95,225)	7,12,625	
Director's fees	1,35,940	
Interest on debentures	28,460	
Depreciation on fixed assets as per Schedule II	5,15675	(13,92,700)
Profit u/s 198		26,73,190

Maximum Managerial remuneration under Companies Act, 2013= 11% of ₹ 26,73,190 = ₹ 2,94,051 (rounded off).

Note:

1. Investment Revaluation reserve not to be deducted for calculation of profit under section 198;
2. Profit on sale of forfeited shares not to added for calculation of profit under section 198.

*Alternative presentation of the above answer also possible by starting from Net profit as per Profit and Loss Account.

Question 6 (c) **(5 Marks)**

Solution:

(c) **Journal Entries in Books of Branch A**

	Particulars		**Dr. Amount ₹**	**Cr. Amount ₹**
(i)	Head office account	Dr.	5,000	
	To Salaries account			5,000
	(Being the rectification of salary paid on behalf of H.O.)			
(ii)	Head office account	Dr.	25,000	
	To Bank / Liability A/c			25,000
	(Being Asset purchased by branch but Asset account retained at head office books)			
(iii)	No Entry in Branch Books			
(iv)	Head office account	Dr.	25,000	
	To Debtors account			25,000
	(Being the amount of branch debtors collected by H.O.)			
(v)	Bank A/c	Dr.	5,000	
	To Head Office			5,000
	(Remittance of Funds by H.O. to Branch)			

Question 6 (d) **(5 Marks)**

Solution:

(d) Criteria for classification of non-corporate entities as level 1 entities for purpose of application of Accounting Standards decided by the Institute of Chartered Accountants of India is given below:

Non-corporate entities which fall in any one or more of the following categories, at the end of the relevant accounting period, are classified as Level I entities:

(i) Entities whose equity or debt securities are listed or are in the process of listing on any stock exchange, whether in India or outside India.

(ii) Banks (including co-operative banks), financial institutions or entities carrying on insurance business.

(iii) All commercial, industrial and business reporting entities, whose turnover (excluding other income) exceeds rupees fifty crore in the immediately preceding accounting year.

(iv) All commercial, industrial and business reporting entities having borrowings (including public deposits) in excess of rupees ten crore at any time during the immediately preceding accounting year.

(v) Holding and subsidiary entities of any one of the above.

Question 6 (e) **(5 Marks)**

Solution:

(e) **Journal Entries in the books of star Ltd.**

2019			Dr. ₹	Cr. ₹
April 1	Equity Share Final Call A/c	Dr.	1,60,000	
	To Equity Share Capital A/c			1,60,000
	(Final call of ₹ 2 per share on 80,000 equity shares made due)			
	Bank A/c	Dr.	1,60,000	
	To Equity Share Final Call A/c			1,60,000
	(Final call money on 80,000 equity shares received)			
June 1	Capital Redemption Reserve A/c	Dr.	75,000	
	Capital Reserve	Dr.	45,000*	
	Securities Premium A/c	Dr.	60,000	
	General Reserve A/c (b.f.)	Dr.	1,40,000**	
	To Bonus to Shareholders A/c			3,20,000
	(Bonus issue of two shares for every five shares held, by utilizing various reserves as per Board's resolution dated…….)			
	Bonus to Shareholders A/c	Dr.	3,20,000	
	To Equity Share Capital A/c			3,20,000
	(Capitalization of profit)			

*Considering it as free reserve as it has been realized.

*Alternatively, different combination of profit and loss balance and general reserve may also be used.

November 2020

Question 1 (a) **(5 Marks)**

Solution:

(a) Computation of amount of depreciation as per AS 10

		₹
(i)	Machinery purchased on 1/4/15 for ₹ 10 lakhs (having residual value of ₹ 10 lakhs) Reason: The company considers that the residual value, based on prices prevailing at the balance sheet date, will equal the cost. Therefore, there is no depreciable amount and depreciation is correctly zero.	Nil
(ii)	Land (50 lakhs) (considered freehold) Reason: Land has an unlimited useful life and therefore, it is not depreciated.	Nil
(iii)	Machinery constructed for own use (₹ 5,00,000/10) Reason: The entity should begin charging depreciation from the date the machine is ready for use i.e. 1st April,2019. The fact that the machine was not used for a period after it was ready to be used is not relevant in considering when to begin charging depreciation.	50,000
(iv)	Machinery having revised useful life Reason: The entity has charged depreciation using the straight-line method at ₹ 10,000 per annum i.e (50,000/5 years). On 1st April,2019 the asset's net book value is [50,000 – (10,000 x 2)] i.e. ₹ 30,000. The remaining useful life is 2 years as per revised estimate. The company should amend the annual provision for depreciation to charge the unamortized cost over the revised remaining life of 2 years. Consequently, it should charge depreciation for the next 2 years at ₹ 15,000 per annum i.e. (30,000 / 2 years).	15,000

Question 1 (b) **(5 Marks)**

Solution:

(b)

		(₹ in lakhs)
1st April, 2016	Acquisition cost of machinery	300.00
	Less: Government Grant	60.00
		240.00
31st March, 2017	Less: Depreciation @ 10%	(24.00)
1st April, 2017	Book value	216.00
31st March, 2018	Less: Depreciation @ 10%	(21.60)
1st April, 2018	Book value	194.40
31st March, 2019	Less: Depreciation @ 10%	(19.44)
1st April, 2019	Book value	174.96
	Less: Depreciation @10% for 2 months	(2.916)
1st June, 2019	Book value	172.044
June 2019	Add: Refund of grant*	60.00
	Revised book value	232.044

Depreciation @10% on the revised book value amounting to ₹ 232.044 lakhs is to be provided prospectively over the residual useful life of the machinery.

*considered refund of grant at beginning of June month and depreciation for two months already charged. Alternative answer considering otherwise also possible.

Journal Entries

Machinery Account To Bank Account (Being government grant on asset partly refunded which increased to cost of fixed asset)	Dr.	60	 60
Depreciation Account To Machinery Account (Being depreciation charged on revised value of fixed asset prospectively for 10 months)	Dr.	19.337	 19.337
Profit & Loss Account To Depreciation Account (Being depreciation transferred to Profit and Loss Account amounting to ₹(2.916+19.337 = 22.253)	Dr.	22.253	 22.253

Question 1 (c) **(5 Marks)**
Solution:

(c) As per AS 13 (Revised) 'Accounting for Investments, for investment in shares - if the investment is purchased with an intention to hold for short-term period (less than one year), then it will be classified as current investment and to be carried at lower of cost and fair value.

In the given case ₹ 25,000 shares held as current investment will be carried in the books at ₹ 23,750 (₹ 47,500/2).

If equity shares are acquired with an intention to hold for long term period (more than one year), then should be considered as long-term investment to be shown at cost in the Balance Sheet of the company. However, provision for diminution should be made to recognize a decline, if other than temporary, in the value of the investments. Hence, ₹ 25,000 shares held as long-term investment will be carried in the books at ₹ 25,000.

Gold and silver are generally purchased with an intention to hold them for long term period (more than one year) until and unless given otherwise.

Hence, the investment in Gold and Silver (purchased on 1st March, 2019) should continue to be shown at cost (since there is no 'other than temporary' diminution) as on 31st March, 2020. Thus Gold at ₹1,00,000 and Silver at ₹ 30,00,000 respectively will be shown in the books.

Question 1 (d) **(5 Marks)**
Solution:

(d) As per AS 16 A qualifying asset is an asset that necessarily takes a substantial period of time to get ready for its intended use or sale. Other investments and those inventories that are routinely manufactured or otherwise produced in large quantities on a repetitive basis over a short period of time, are not qualifying assets. Assets that are ready for their intended use or sale when acquired also are not qualifying assets. Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset should be capitalized as part of the cost of that asset. Other borrowing costs should be recognized as an expense in the period in which they are incurred.

Construction of factory shed amounting ₹ 240 lakhs is qualifying asset in the given case. The interest for this amount during the year will be added to the cost of factory shed. All others (purchase of machinery, vehicles and technical know-how, working capital, advance for tools/cranes) are non-qualifying assets and related borrowing cost will be charged to Profit and Loss statement.

Qualifying Asset as per AS 16 (construction of a shed) = ₹ 240 lakhs

Borrowing cost to be capitalized = ₹ 40 lakhs x 240/320 = ₹ 30 lakhs

Interest to be debited to Profit or Loss account: ₹ (40 – 30) = ₹ 10 lakhs.

Note: Assumed that construction of factory shed completed on 31st March, 2020.

Question 2 (a) **(10 Marks)**

Solution:

(a) **Branch stock Account**

		₹			₹	₹	₹
1.4.19	To Balance b/d (Opening Stock)	72,000	31.3.20	By Sales:			
31.3.20	To Goods Sent to Branch A/c	8,40,000		Cash Credit	6,25,000	1,85,000	
	To Branch P&L	94,000		Less Return	(14,000)	6,11,000	7,96,000
				By Goods sent to branch return			60,000
				By Balance c/d (Closing stock)			1,50,000
1.4.20	To Balance b/d	10,06,000 1,50,000					10,06,000

Branch Debtors Account

			₹				₹
1.4.19	To	Balance b/d	96,000	31.3.20	By	Cash	4,38,000
31.3.20	To	Sales	6,25,000		By	Returns	14,000
					By	Discounts	7,500
					By	Bad debts	5,500
					By	Balance c/d	2,56,000
			7,21,000				7,21,000
1.4.20	To	Balance b/d	2,56,000				

Branch Expenses Account

			₹				₹
31.3.20	To	Salaries & Wages	72,000	31.3.20	By	Branch P&L A/c	1,18,200
	To	Rent, Rates & Taxes	24,000				
	To	Office Expenses	9,200				
	To	Discounts	7,500				
	To	Bad Debts	5,500				
			1,18,200				1,18,200

Branch Profit & Loss Account for year ended 31.3.20

			₹				₹
31.3.20	To	Branch Expenses A/c	1,18,200	31.3.20	By	Branch stock	94,000
	To	Net profit transferred to General P&L A/c	93,800		By	Branch Stock Adjustment account	1,17,000
					By	Bad debts recovered	1,000
			2,12,000				2,12,000

Branch Stock Adjustment Account for year ended 31.3.20

			₹				₹
31.3.20	To	Goods sent to branch (60,000×1/6) – Returns	10,000	31.3.20	By	Balance b/d (72,000×1/6)	12,000
	To	Branch P &L A/c	1,17,000		By	Goods sent to Branch (8,40,000×1/6)	1,40,000
	To	Balance c/d (1,50,000×1/6)	25,000				
			1,52,000				1,52,000

Question 2 (b) **(10 Marks)**

Solution:

(b) **Trading and Profit and Loss Account M/s Rohan & sons for the year ended 31st March, 2020**

	₹		₹
To Opening stock	3,75,000	By Sales	24,60,000
To Purchases	18,85,000	By Closing stock	4,15,000
To Gross Profit c/d (25%)	6,15,000	(Balancing Figure)	
	28,75,000		28,75,000
To Depreciation	80,000	By Gross profit b/d	6,15,000
To Expenses (15% of ₹ 24,60,000)	3,69,000	By Profit on sale of Fixed assets	2,000
To Net Profit (b.f.)	1,68,000		
	6,17,000		6,17,000

Balance Sheet of M/s Rohan as on 31st March 2020

Liabilities	₹	**Assets**	₹
Capital	12,50,000	Fixed assets (less Dep.)	6,66,000
Profit & Loss A/c (1,45,000 + 1,68,000)	3,13,000		
		Stock	4,15,000
Trade Creditors	1,25,000	Debtors	3,85,000
		Cash and bank	2,22,000
	16,88,000		16,88,000

Cash and Bank Account

To Bal. b/d	1,95,000	By Creditors (1,90,000+16,2000+1,40,000)	19,50,000
To Debtors (3,65,000 + 20,75,000)	24,40,000	By Expenses	3,69,000
To Fixed assets	56,000	By Fixed assets	1,50,000
		By Bal. c/d	2,22,000
	26,91,000		26,91,000

Fixed Assets Account

To Bal. b/d	6,50,000	By Cash	56,000
To Profit Sale of Fixed asset	2,000	By Depreciation on sold fixed assets	6,000
To Fixed assets		By Depreciation (59,000+15,000)	74,000
		By Bal. c/d	6,66,000
	8,02,000		8,02,000

Question 3 (a) **(10 Marks)**

Solution:

(a) **In the books of Mr. H**

Investment in equity shares of ABC Ltd. For the year ended 31st March, 2020

Date	Particulars	No.	Income ₹	Amount ₹	Date	Particulars	No.	Income ₹	Amount ₹
2019 April 1	To Balance b/d	3,000	-	5,40,000	2019 Oct	By Bank A/c (W.N. 5)	-	60,000	20,000
June	To Bank A/c	10,000	-	1,62,400	20x2 Jan	By Bank A/c (W.N.4)	28,000	-	4,85,100
July	To Bonus Issue (W.N.2)	10,000	-	-	March 31	By Balance c/d	28,000	-	3,77,200
2020 Jan	To P&L A/c (W.N.4)	-	-	1,07,900					
March 31	To P& L A/c	-	60,000	-					
		56,000	60,000	8,82,300			56,000	60,000	8,82,300

Working Notes:

1. Calculation of no. of bonus shares issued
   Bonus Shares = (30,000 + 10,000) divided by 4 = 10,000 shares

2. Calculation of right shares subscribed
   Right Shares = $\frac{30{,}000\text{ Share}+10{,}000\text{ shares}+10{,}000\text{ shares}}{5}$ = 10,000 shares
   Shares subscribed 10,000× 60% = 6,000 shares
   Value of right shares subscribed = 6,000 shares @ ₹ 12 per share = ₹72,000

3. Calculation of sale of right entitlement Amount received from sale of rights will be 4,000 shares x ₹ 5 per share ₹ 20,000 and it will be credited to statement of profit and loss.

4. Calculation of profit/ loss on sale of shares-
   Total holding = 30,000 shares original
   10,000 shares purchased
   10,000 shares bonus
   6,000 shares right shares
   56,000

   50% of the holding were sold i.e. 2800 shares (56,000 ×1/2) were sold Cost of total holding of 56,000 shares = ₹5,40,000 + ₹1,62,4000 + ₹72,000 - ₹ 20,000 = ₹ 7,54,400

   Average Cost of shares sold would be:

   $= \frac{7{,}54{,}00}{56{,}000} \times 28{,}000$ = ₹ 3,77,200

	₹
Sale proceeds of 28,000 shares (28,000 × ₹ 17.50)	4,90,000
Less: 1% Brokerage	(4,900)
	4,85,100
Less: Cost of 28,000 shares sold	(3,77,200)
Profit on sale	1,07,900

5. Dividend received on investment held as on 1st April, 2019
   = 30,000 shares×10×20%
   = ₹ 60,000 will be transferred to Profit an Loss A/c and

Dividend received on shares purchased on 10th June, 2019

= 10,000 shares × ₹ 10×20% = ₹20,000 will be adjustment to investment A/c

6. Calculation of closing value of shares (om average basis) as on 31st March, 2020 $\frac{7,54,400}{56,000}$ × 28,000 = ₹3,77,200

Question 3 (b) **(10 Marks)**

Solution:

(b) **Memorandum Trading Account**

for the period 1st April, 2019 to 30th September, 2018

	Normal Items ₹	Abnormal Items ₹	Total ₹		Normal Items ₹	Abnormal Items ₹	Total ₹
To Opening stock	2,48,000	12,000	2,60,000	By Sales	5,97,000	5,000	6,02,000
To Purchases (W.N. 2)	3,39,900	-	3,39,900	By Goods sent to consignee	44,800	-	44,800
To wages (85,000-7,000)	78,000	-	78,000	By Loss	-	4,000	4,000
To Gross profit @ 20%			1,19,400	By closing stock (Bal. fig)	1,43,500	3,000	1,46,500
	7,85,000	12,000	7,97,300		7,85,300	12,000	7,97,300

Statement of Claim for Loss of Stock

	₹
Book value of stock as on 30.9.2019	1,46,500
Less: Stock salvaged	(35,000)
Loss of stock	1,11,500

Amount of claim to be lodged with insurance company

= Loss of stock × $\frac{\text{Policy value}}{\text{Value of stock on the date of fire}}$

= ₹ 1,11,500 ×1,20,000/1,46500 = ₹ 91,331 (approx.)

Working Notes:

1. Rate of gross profit for the year ended 31st March, 2019

Trading Amount for the year ended 31sr March, 2019

	₹		₹
To Opening Stock	2,11,000	By Sales	8,60,000
To Purchases	6,55,000	By Closing stock 2,52,000	
		Add: written off 8,000	
To Wages	82,000		2,60,000
To Gross Profit (b.f.)	1,72,000		
	11,20,000		11,20,000

Rate of Gross Profit in 2018-19

$\frac{\text{Gross profit}}{\text{sales}}$ ×100

= 1,72,000 × 100/8,60,000 = 20%

2. Calculation of Adjusted Purchases

	₹
Purchases (4,48,000 – 58,000)	3,90,000
Less: Drawings [52,000 – (20 % of 52,000)]	(41,600)
Free samples	(8,500)
Adjusted purchases	3,39,900

Note: The answer has been given considering that the value of stock (at cost) on 31.3.19 amounting ₹2,52,000 is after adjustment of written off amount in respect of slow-moving item.

Question 4 (a) **(10 Marks)**

Solution:

(a) **Manan Ltd. Cash flow Statement for the year ended 31st March, 2020**

	₹	₹
Cash flow from Operating Activities		
Net profit before income tax and extraordinary items:		30,00,000
Adjustments for:		
Depreciation on Property, plant and equipment	7,50,000	
Discount on issue of debentures	45,000	
Interest on debentures paid	5,25,000	
Interest on investments received	(90,000)	
Profit on sale of investments	(30,000)	12,00,000
Operating profit before working capital changes		42,00,000
Adjustments for:	(1,77,000)	
Increase in inventory	7,350	
Decrease in trade receivable	450	
Increase in trade payables	10,200	(1,59,000)
Increase in outstanding expenses		40,41,000
Cash generated from operations		(15,75,000)
Income tax paid		24,66,000
Cash flow from ordinary items Cash flow from extraordinary items:		
Compensation received in a suit filed Net cash flow from operating		1,35,000
activities Cash flow from Investing Activities;		26,01,000
Sale proceeds of investments	4,80,000	
Interest received on investments	90,000	
Purchase of land (3,00,000 less 2,64,000)	(36,000)	
Net cash flow from investing activities		5,34,000
Cash flow from Financing Activities		
Proceeds of issue of equity shares at 20% premium	6,00,000	
Redemption of preference shares at 5% premium	(23,62,500)	
Preference dividend paid	(2,25,000)	
Interest on debentures paid	(5,25,000)	
Dividend paid (7,50,000 + 2,50,000)	(10,00,000)	
Net cash used in financing activities		(35,12,500)
Net decrease in cash and cash equivalents during the year		(3,77,500)
Add: Cash and cash equivalents as on 31.3.2019		3,94,450
Cash and cash equivalents as on 31.3.2020		16,950

Question 4 (b) **(10 Marks)**

Solution:

(b) **9% Debentures Account**

Date	Particulars	₹	Date	Particulars	₹
30th March, 2020	To Own Debentures A/c Debentures A/c	96,500	1st April, 2019	By Balance b/d	8,00,000
March, 2020	To Profit on cancellation	3,500			
31st March, 2020	To Bank A/c	7,00,000			
		8,00,000			8,00,000

Debenture Redemption Reserve (DDR) Account

Date	Particulars	₹	Date	Particulars	₹
			1st April, 2019	By Balance b/d	50,000
31st March, 2020	To General Reserve A/c	80,000	1st April, 2019	By Profit and Loss, A/c [Refer working Note 3]	30,000
		80,000			80,000

Debenture Redemption Reserve Investment (DRRI) Account

Date	Particulars	Amount	Date	Particulars	Amount
1st April,2019	To Balance b/d	1,00,000	31st March,2020	By Bank A/c (1,000×100×15%) (Refer working Note 2)	15,000
1st April,2019	TO Bank A/c (Refer Working Note 1)	20,000	31st March 2020	By Bank A/c (Refer working Note 2)	1,05,000
		1,20,000			1,20,000

Own Debentures A/c

Date	Particulars	₹	Date	Particulars	₹
30th March, 2020	To Bank A/c*	96,500	30th March 2020	By 9% Debenture	9650
		96,500			80,000

*interest not considered

Working Notes:

1. **Debenture Redemption Reserve Investment A/c**

The company would be required to invest an amount equivalent to 15% of the value of the debentures in specified investments which would be equivalent to:

= Total No of debentures X Face value per debenture X 15%

= 8,000 X 100 X 15% = ₹1,20,000/-

The company has already invested in specified investments i.e. 7% Govt bonds for an amount of ₹1,00,000 as per the information given in the question. The balance amount of ₹ 20,000 (i.e. ₹ 1,20,000 less ₹ 1,00,000) would be invested by the company on 1 April 2019.

2. **Redemption of Debenture Redemption Reserve Investments on 31.3.2020**

Since the company purchased 1,000 own debentures on 31 March 2020, the company would also realize the investments of 15% corresponding to these debentures for which computation is as follows:

= No of own debentures to be bought X Face value per debenture X 15%

= 1,000 X 100 X 15% = ₹ 15,000/-

The remaining debentures i.e. total debentures less own debentures would be redeemed on 31 March 2020 and hence the company would also realize the balance investments of 15% corresponding to these debentures for which computation is as follows:

= (Total no of debentures - No of own debentures) X Face value per debenture X 15%

= (8,000 - 1,000) X 100 X 15% = ₹1,05,000/-

3. **Debenture Redemption Reserve**

The company would be required to transfer an amount equivalent to 10% of the value of the debentures in Debentures Redemption Reserve Account. The value of debentures is 8,00,000 thus 10% of it i.e. 80,000 should be there in DRR a/c. The available balance in DRR a/c is only 50,000 therefore 30,000 (80,000 – 50,000) additional amount will be transferred from General Reserve or Profit and loss A/c to DRR A/c.

Question 5 (a) **(8 Marks)**

Solution:

(a) **Tractor Account**

Date	Particulars	₹	Date	Particulars	₹
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	₹	Date	Particulars	₹
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 c/d	24,000	31.3.2020	By Interest A/c	24,000

Total interest = ₹ 72,000 + ₹ 48,000 + ₹ 24,000 = ₹ 1,44,000

Raj Ltd. Account

Date	Particulars	₹	Date	Particulars	₹
1.4.2017	To Bank A/c	2,50,000	1.4.2017	By Tractor A/c	11,50,000
				By H.P Interest	
31.3.2018	To Bank A/c	3,72,000		Suspense A/c	1,44,000
	To Balance b/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

Question 5 (b) **(12 Marks)**

Solution:

(b) **Journal Entries**

			₹	₹
1	10% Preference share final Call A/c To 10% Preference share Capital A/c	Dr.	6,00,000	 6,00,000

	(For final call made on preference shares @ ₹ 20 each to make them fully paid up)			
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 @ ₹ 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 @ ₹ 7 per share including a premium of ₹ 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 shares 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	 33,00,00
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 To Capital Redemption Reserve A/c (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)	Dr.	19,50,000	 19,50,000
10	Preference Shareholders A/c To Bank A/c (For amount paid to preference shareholders)	Dr.	33,00,000	 33,00,000

Balance Sheet (extracts)

		Particulars	Notes No.	As at 31.3.2020 ₹	As at 31.12.2019 ₹
	EQUITY AND LIABILITIES				
1.	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 ₹ 10 each fully paid up	60,00,000	60,00,000
1,50,000 Equity shares of ₹10 each ₹ 7 paid up	10,50,000	-
30,000, 10% Preference shares of ₹ 100 each, ₹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 ₹10,50,000 (₹3,00,000 application money plus ₹ 7,50,000 received on allotment towards share capital) and balance ₹ 19,50,000 to taken from general reserve account.

Question 6 (a) **(4 Marks)**

Solution:

(a) **Calculation of unrealized profit of each department**

	Dept. A ₹	Dept. B ₹	Dept. C ₹	Total ₹
Unrealized Profit of Department A		1,14,000 x 20/120 = 19,000	60,000 x 50/150 = 20,000	39,000
Department B	55,000 x .15 = 8,250		15,200 x.10 = 1,520	9,770
Department C	52,800 x 10/110 = 4,800	1,11,300 x 5/105 = 5,300		10,100

Question 6 (b) **(4 Marks)**

Solution:

(b) The qualitative characteristics are attributes that improve the usefulness of information provided in financial statements. Financial statements are required to show a true and fair view of the performance, financial position and cash flows of an enterprise. The framework for Preparation and Presentation of Financial Statements suggests that the financial statements should maintain the following four qualitative characteristics to improve the usefulness of the information furnished therein.

1. **Understandability**: The financial statements should present information in a manner as to be readily understandable by the users with reasonable knowledge of business and economic activities and accounting.
2. **Relevance:** The financial statements should contain relevant information only. Information, which is likely to influence the economic decisions by the users, is said to be relevant. Such information may help the users to evaluate past, present or future events or may help in confirming or correcting past evaluations. The relevance of a piece of information should be judged by its materiality. A piece of

information is said to be material if its misstatement (i.e., omission or erroneous statement) can influence economic decisions of a user.

3. **Reliability:** To be useful, the information must be reliable; that is to say, they must be free from material error and bias. The information provided are not likely to be reliable unless transactions and events reported are faithfully represented. The reporting of transactions and events should be neutral, i.e. free from bias and be reported on the principle of 'substance over form'. The information in financial statements must be complete. Prudence should be exercised in reporting uncertain outcome of transactions or events.
4. **Comparability:** Comparison of financial statements is one of the most frequently used and most effective tools of financial analysis. The financial statements should permit both inter-firm and intra-firm comparison. One essential requirement of comparability is disclosure of financial effect of change in accounting policies.

Question 6 (c) **(4 Marks)**

Solution:

(c) Calculation of net profit of X Ltd. as per the Companies Act, 2013

	₹	₹
Balance from Trading A/c		42,53,650
Add: Subsidies received from Government		3,50,000
		46,03,650
Less: Administrative expenses	5,96,400	
Advertisement expenses	1,10,500	
Sales commission	1,05,550	
Director's fees	1,48,900	
Interest on debentures	56,000	
Depreciation on fixed assets as per Schedule II	6,51,750	(16,69,100)
Profit u/s 198		29,34,550

Maximum Managerial remuneration under Companies Act, 2013 = 11% of ₹ 29,34,550 = ₹ 3,22,800 (rounded off).

Question 6 (d) **(4 Marks)**

Solution:

(d) Profit and Loss Account of M/s S Traders for the year ended 31st March, 2020 (business is not a going concern)

	₹		₹
To Opening Stock	76,000	By Sales	7,80,000
To Purchases	6,25,000	By Trade payables	2,400
To General expenses	53,800	By Closing Stock	66,000
To Depreciation (1,05,000 less 90,000)	15,000		
To Provision for doubtful debts	15,000		
To Deferred expenditure	24,000		
To Loan penalty	4,000		
To Net Profit (b.f.)	35,600		
	8,48,400		8,48,400

Balance Sheet M/s S Traders as on 31st March, 2020

Liabilities and Capital		**₹**	**Assets**	**₹**
Capital Profit & Loss A/c		1,50,000	Fixed assets Debtors	90,000

opening balance	56,000		(65,000 less provision for doubtful debts ₹ 15,000	50,000
Profit earned during the year	35,600	91,600	Closing stock	66,000
11% Loan		84,000	Cash & Bank balance	1,65,200
Trade payables		45,600		
		3,71,200		3,71,200

Question 6 (e) **(4 Marks)**

Solution:

(e) Statement showing the calculation of Profits for the pre-incorporation and post-incorporation periods

Particulars	**Total Amount ₹**	**Basis of Allocation**	**Pre-incorporation ₹**	**Post-incorporation ₹**
Gross Profit (W.N.2)	6,30,000	2:5 (sales)	1,80,000	4,50,000
Less: Salaries	1,56,000	Time	(52,000)	(1,04,000)
Rent, rates and taxes	72,000	Time	(24,000)	(48,000)
Commission on sales	40,600	2:5 (sales)	(11,600)	(29,000)
Depreciation	60,000	Time	(20,000)	(40,000)
Interest on debentures	36,000	Post		(36,000)
Directors' fee	24,000	Post		(24,000)
Advertisement	48,000	Post		(48,000)
Net profit			72,400	1,21,000

Pre-incorporation profit will be transferred to Capital Reserve. Post-incorporation profit will be transferred to Profit & Loss Account.

Working Notes:

1. **Sales ratio**

Let the monthly sales for first 4 months (i.e. from 1.4.2019 to 31.7.2019) be = x Then, sales for 4 months = 4x

Monthly sales for next 8 months (1st August, 2019 to 31st March, 2020) = x + 25% of x= 1.25x Then, sales for next 8 months = 1.25x X 8 = 10x

Total sales for the year = 4x + 10x = 14x. Hence Sales Ratio = 4 x :10x i.e. 2:5

2. **Time ratio**

1st April, 2019 to 31st July, 2019 : 1st August, 2019 to 31st March, 2020 = 4 months: 8 months = 1:2. Thus, time ratio is 1:2.