PAPER – 1 : ACCOUNTING

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

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

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

Working Notes should form part of the answer.

Question 1

(a) Haresh infra projects has undertaken a project to construct a bridge for the Government of India. The construction commenced during the financial year ending 31.03.2020 and is likely to be completed by the end of next financial year. The contract is for a fixed price of ₹ 22 Crore with an escalation clause.

You are given the following information for the year ended 31.03.2020:

Cost incurred up to 31.03.2020	*₹ 8 Crore*
Estimated costs to complete the contract	*₹ 12 Crore*

There is an escalation in cost by 5% and accordingly the contract price is increased by 5%

During the second year, the total cost incurred on the contract was ₹ 13 Crore.

You are required to ascertain the stage of completion and state the revenue and profit to be recognized for the first year as per AS 7 and calculate the profit made on the contract during second year.

(b) An enterprise ordered 20,000 KG of certain material at ₹ 110 per unit. The purchase price includes GST ₹ 12 per KG, in respect of which full input tax credit (ITC) is admissible. Freight incurred amounted to ₹ 1,17,600. Normal transit loss is 2%. The enterprise actually received 19,500 KG and consumed 18,000 KG of the material.

(i) You are required to calculate cost of material per KG;

(ii) Allocation of material cost.

(c) Star Limited purchased machinery for ₹ 6,80,000 (inclusive of GST of ₹ 40,000). Input credit is available for entire amount of GST paid. The company incurred the following other expense for installation.

	₹
Cost of preparation of site for installation	*21,200*
Total Labour charges	*56,000*
(200 out of the total of 500 men hours worked, were spent on installation of the machinery)	

Spare parts and tools consumed in installation	*5,000*
Total salary of supervisor	*26,000*
(Time spent for installation was 25% of the total time worked)	
Total administrative expense	*34,000*
(1/10 relates to the plant installation)	
Test run and experimental production expenses	*18,000*
Consultancy charges to architect for plant set up	*11,000*
Depreciation on assets used for installation	*12,000*

The machine was ready for use on 15.01.2021 but was used from 01.02.2021. Due to this delay further expenses of ₹ 8,900 were incurred. Calculate the value at which the plant should be capitalized in the books of Star Limited.

(d) Sanket had 50,000 Equity shares of XYZ Ltd. on 01.04.2020 at a book value of ₹ 25 per share (face value ₹ 10). On 01.06.2020, he purchased another 10,000 shares of the company at ₹ 20 per share.

The director of XYZ Ltd. announces a bonus and right issue. No dividend was payable on these issues. The terms of the issue were as follows:

- *Bonus basis 1:6 (Date: 16.08.2020)*
- *Right basis 3: 7 (Date: 31.08.2020) price ₹ 15 per share*
- *Due date for payment 30.09.2020*
- *Shareholders can transfer their rights in full or in part.*

Accordingly, Sanket sold 33.33% of his entitlement in the market for consideration of ₹ 4 per share on 31.08.2020 & he procured other entitlement by payment.

Dividends for the year ended 31.03.2020 at the rate of 20% were declared by XYZ Ltd. and received by Sanket on 31.10.2020. Dividend amount for shares acquired by him on 01.06.2020 are to be adjusted against the cost of purchase.

On 15.11.2020, Sanket sold 25,000 equity shares at premium, ₹ 12 per share.

You are required to prepare in books of Sanket.

(i) Investment Account

(ii) Profit & Loss Account (Extract for Investment)

Books of accounts are closed by Sanket on 31.12.2020 and market price of shares on that date is ₹ 20 per share. ***(4 Parts X 5 Marks = 20 Marks)***

Answer

(a)

	₹ *in crore*
Cost of construction of bridge incurred 31.3.20	8.00
Add: Estimated future cost	12.00
Total estimated cost of construction	20.00

Stage of completion

Percentage of completion till date to total estimated cost of construction

= (8/20)×100 = 40%

Agreed Contract Price	22 crore
Add: 5% escalation (22 crore x .05)	1.10 crore
Total contract value	23.1 crore

Revenue and Profit to be recognized for the first year as per AS 7

Proportion of total contract value recognized as revenue = Contract price x percentage of completion = ₹ 23.1 crore x 40% = ₹ 9.24 crore

Profit to be recognized = ₹ 9.24 crore less ₹ 8 crore = ₹ 1.24 crore

In the second year the contract was completed the percentage of completion is 100%.

Profit made in the second year is shown in the statement below:

			₹ In Crore
Year II	Total	Recognized in Previous year	Recognized in Current year
Revenue i.e. 100%	23.10	9.24	13.86
Cost incurred	21.00	8.00	13.00
Profit recognized	2.10	1.24	0.86

(b) Calculation of Normal cost per Kg.

	₹
Purchase price (20,000 Kg. x ₹ 110)	22,00,000
Less: Input Tax Credit (20,000 Kg. x ₹ 12)	(2,40,000)
	19,60,000
Add: Freight	1,17,600
A. Total material cost	20,77,600
B. Number of units normally received = 98% of 20,000 Kg.	Kg. 19,600
C. Normal cost per Kg. (A/B)	106

Allocation of material cost

	Kg.	₹ /Kg.	₹
Materials consumed	18,000	106	19,08,000
Cost of inventory	1,500	106	1,59,000
Abnormal loss	100	106	10,600
Total material cost	19,600	106	20,77,600

Note: Abnormal losses are recognized as separate expense.

(c) Calculation of Cost of Plant

Particulars		₹
Purchase Price	Given	6,80,000
Add: Site Preparation Cost	Given	21,200
Labour charges	(56,000×200/500) Given	22,400
Spare parts		5,000
Supervisor's Salary	25% of ₹ 26,000	6,500
Administrative costs	1/10 of ₹ 34,000	3,400
Test run and experimental production charges	Given	18,000
Architect Fees for set up	Given	11,000
Depreciation on assets used for installation	Given	12,000
Total Cost of Asset		7,79,500
Less: GST credit receivable		(40,000)
Value to be capitalized		7,39,500

Note: Further Expenses of ₹ 8,900 from 15.1.2021 to 1.2.2021 to be charged to profit and loss A/c as plant was ready for production on 15.1.2021.

(d) Books of Sanket

Investment Account

(Scrip: Equity Shares in XYZ Ltd.)

		No.	*Amount* ₹			*No.*	*Amount* ₹
1.4.2020	To Balance b/d	50,000	12,50,000	31.10.2020	By Bank (dividend	—	20,000
1.6.2020	To Bank	10,000	2,00,000				
16.8.2020	To Bonus	10,000	—		on shares		

	(W.N.1)				acquired on 1.6.2020) (W.N.4)		
30.9.2020	To Bank (Rights Shares) (W.N.3)	20,000	3,00,000				
15.11.2020	To Profit (on sale of shares)		69,444	15.11.2020	By Bank (Sale of shares)	25,000	5,50,000
				31.12.2020	By Bal. c/d (W.N.6)	65,000	12,49,444
		90,000	18,19,444			90,000	18,19,444

Profit and Loss Account (an extract)

31.12.20	To Balance c/d (profit)	2,09,444	31.8.20	By Sale of rights (W.N.3)	40,000
			31.10.20	By Dividend (W.N.4)	1,00,000
			15.11.20	By Profit transferred from Investment A/c	69,444
		2,09,444			2,09,444

Working Notes:

(1) **Bonus Shares** = $\frac{(50,000+10,000)}{6}$ = 10,000 shares

(2) **Right Shares** = $\frac{(50,000+10,000+10,000)}{7}$ x 3 = 30,000 shares × 2/3 = 20,000 shares

(3) **Right shares renounced** = 30,000×1/3 = 10,000 shares

Sale of right shares = 10,000 x 4 = ₹ 40,000

Right shares subscribed = 20,000 shares

Amount paid for subscription of right shares = 20,000 x ₹15 = ₹ 3,00,000

(4) **Dividend received** = 50,000 (shares as on 1st April 2020) × ₹10 × 20% = ₹ 1,00,000

Dividend on shares purchased on 1.6.2020 = 10,000 × ₹10 ×20% = ₹ 20,000 is adjusted to Investment A/c

(5) **Profit on sale of 25,000 shares**

= Sales proceeds – Average cost

Sales proceeds = ₹ 5,50,000

Average cost $= \dfrac{(12,50,000+2,00,000+3,00,000-20,000)}{90,000}$ x 25,000 = ₹ 4,80,556

Profit = ₹ 5,50,000 – ₹ 4,80,556 = ₹ 69,444.

(6) **Cost of shares on 31.12.2020** $\dfrac{(17,30,000)}{90,000}$ x 65,000 = ₹ 12,49,444

Market value of share = 65,000 shares × ₹ 20 = 13,00,000

Shares will be valued at ₹ 12,49,444 as market value is more than cost.

Note: In the question, it is given that Sanket sold 25,000 equity shares at premium, ₹ 12 per share. It has been assumed in the above solution that shares were sold at price of ₹ 22 per share (ie. at premium of ₹ 12 per share) Alternatively, it can be considered that shares were sold at price of ₹ 12 per share. In that case, the solution will be given as follows:

Books of Sanket
Investment Account
(Scrip: Equity Shares in XYZ Ltd.)

		No.	Amount ₹			No.	Amount ₹
1.4.2020	To Balance b/d	50,000	12,50,000	31.10.2020	By Bank (dividend on shares acquired on 1.6.2020) (W.N.4)	—	20,000
1.6.2020	To Bank	10,000	2,00,000				
16.8.2020	To Bonus (W.N.1)	10,000	—				
30.9.2020	To Bank (Rights Shares) (W.N.3)	20,000	3,00,000				
				15.11.2020	By Bank (Sale of shares)	25,000	3,00,000
				15.11.2020	By Profit & Loss (loss on sale of shares)	-	1,80,556
				31.12.2020	By Bal. c/d (W.N.6)	65,000	12,49,444
		90,000	17,50,000			90,000	17,50,000

Profit and Loss Account (an extract)

15.11.20	To Loss transferred from Investment A/c	1,80,556	31.8.20	By Sale of rights (W.N.3)	40,000
			31.10.20	By Dividend (W.N.4)	1,00,000
			31.12.20	By Balance c/d (loss)	40,556
		1,80,556			1,80,556

Working Notes:

(1) **Bonus Shares** = $\frac{(50,000 + 10,000)}{6}$ = 10,000 shares

(2) **Right Shares** = $\frac{(50,000 + 10,000 + 10,000)}{7}$ x 3 = 30,000 shares × 2/3 = 20,000 shares

(3) **Right shares renounced** = 30,000×1/3 = 10,000 shares

Sale of right shares = 10,000 x 4 = ₹ 40,000

Right shares subscribed = 20,000 shares

Amount paid for subscription of right shares = 20,000 x ₹ 15 = ₹ 3,00,000

(4) **Dividend received** = 50,000 (shares as on 1st April 2020) × ₹10 × 20% = ₹ 1,00,000

Dividend on shares purchased on 1.6.2020 = 10,000×₹10×20% = ₹ 20,000 is adjusted to Investment A/c

(5) **Loss on sale of 25,000 shares**

= Average cost - Sales proceeds

Sales proceeds = ₹ 3,00,000 (25,000 x 12)

Average cost = $\frac{(12,50,000 + 2,00,000 + 3,00,000 - 20,000)}{90,000}$ x 25,000 = ₹ 4,80,556

Loss = ₹ 4,80,556 - ₹3,00,000 = ₹1,80,556.

(6) **Cost of shares on 31.12.2020** $\frac{(17,30,000)}{90,000}$ x 65,000 = ₹ 12,49,444

Market value of share = 65,000 shares × ₹20 = 13,00,000

Shares will be valued at ₹12,49,444 as market value is more than cost.

Question 2

The Balance sheet of MNO Ltd. as at 31.03.2021 is as follows:

Balance Sheet as at 31st March, 2021 ***(₹ 000)***

Particulars		Amount	Amount
I	**Equity and Liabilities**		
(1)	Shareholders' fund		
	(a) Share Capital		
	50 lakh Equity shares of ₹ 100 each ₹ 70 called and paid up	3,50,000	
	5 lakh 12% preference shares of ₹ 100 cash, fully paid up	50,000	4,00,000
	(b) Reserve and Surplus		
	Profit and Loss Account (-ve)	(86,000)	(86,000)
(2)	Non-current liabilities		
	(a) Long -term borrowings		
	11% Debentures, secured by mortgage of Land and Building	1,00,000	
	Loan, Unsecured	12,000	1,12,000
(3)	Current liabilities		
	(a) Trade payables	26,000	
	(b) Short-term provisions		
	Staff Provident Fund	17,280	43,280
	Total		4,69,280
II	**Assets**		
(1)	Non-current assets		
	(a) Property, Plant and Equipment		
	(i) Land & Building	1,55,000	
	Machinery	95,000	
	Furniture and Fittings	15,000	2,65,000
	(ii) Intangible assets		
	Goodwill	11,600	11,600
2	Current assets		
	(a) Inventories		1,13,640
	(b) Trade receivables		76,400
	(c) Cash and cash equivalents		

Balance with Bank	*2,600*	
Cash-in hand	*40*	*2,640*
Total		*4,69,280*

The following scheme of reconstruction has been passed and approved by the court:

(i) *Uncalled capital is to be called in full.*

(ii) *Every equity share of ₹ 100 each to be subdivided into 10 equity shares of ₹ 10 each. After, sub-division, equity shareholders are to surrender 30% of their holdings for immediate cancellation.*

(iii) *Preference shareholders have agreed to accept identical number of fully paid 14% preference shares of ₹ 85 each in lieu of their present holdings.*

(iv) *11% debenture holders have agreed to accept 12% debentures of ₹ 9 crore in full satisfaction of their claim on debentures for ₹ 10 crore*

(v) *Unsecured Loan of ₹ 1 crore 20 lakhs is converted into 11% debentures for ₹ 1 crore.*

(vi) *Trade payables have agreed to surrender 20% of their claim in consideration of the balance being paid in cash forthwith.*

(vii) *Inventories are overvalued by ₹ 1Crore 25 Lakhs and machinery is to be depreciated by ₹ 3.50 Crore*

(viii) *A provision of ₹ 64 lakhs is to be made for doubtful debts against trade receivables.*

The scheme of reconstruction is fully implemented. You are required to pass journal entries for all the transactions concerning reconstruction and draw company's balance sheet immediately after the reconstruction. ***(16 Marks)***

Answer

Journal Entries in the books of MNO Ltd.

		₹ '000	*₹ '000*
(1) Equity Share Final Call A/c	Dr.	1,50,000	
To Equity Share Capital A/c			1,50,000
(Being final call made on 50 lakh equity shares @ ₹ 30 each)			
(2) Bank A/c		1,50,000	
Equity Share Final Call A/c			1,50,000
(Being receipt of final call amount on equity shares at ₹ 30 each)			
(3) Equity Share Capital (₹ 100) A/c	Dr.	5,00,000	

To Equity Share Capital (₹ 10) A/c			5,00,000
(Subdivision of 50,00,000 equity shares of ₹ 100 each into 5 crore equity shares of ₹ 10 each as per reconstruction scheme)			
(4) Equity Share Capital (₹ 10) A/c	Dr.	1,50,000	
To Reconstruction A/c			1,50,000
(Surrender of 1.5 crore equity shares of ₹ 10 each by the shareholders for cancellation as per reconstruction scheme			
(5) 12% preference Share Capital (₹ 100) A/c	Dr.	50,000	
To 14% preference Share Capital (₹ 85) A/c			42,500
To Reconstruction A/c			7,500
(Being allotment of 5 lakh 14% preference shares at ₹ 85 each in lieu of identical number of 12% preference shares of ₹ 100 each, sacrifice being credited to Reconstruction account)			
(6) 11% Debentures A/c	Dr.	1,00,000	
To 12% Debentures A/c			90,000
To Reconstruction A/c			10,000
(Being allotment of 12% debentures of ₹ 9 crore in lieu of 11% debentures of ₹ 10 crore as per reconstruction scheme)			
(7) Unsecured loan	Dr.	12,000	
To 11% Debentures A/c			10,000
To Reconstruction A/c			2,000
(Being allotment of 11% debentures of ₹ 1 crore in full satisfaction of Unsecured Loan amounting ₹ 1.2 crores as per reconstruction scheme.)			
(8) Trade payables A/c	Dr.	26,000	
To Bank A/c			20,800
To Reconstruction A/c			5,200
(Being surrender of 20% of claim by trade payables and balance paid in cash)			
(9) Reconstruction A/c	Dr.	1,51,500	
To Goodwill A/c			11,600
To Provision for doubtful debt A/c			6,400

To Machinery A/c			35,000
To Inventory A/c			12,500
To Profit and Loss A/c			86,000
(Being transfer of goodwill and balance in Profit and Loss Account to Reconstruction account, provision for doubtful debts made, writing down value of machinery and Inventory as per reconstruction scheme.)			
(10) Reconstruction Account	Dr.	23,200	
To Capital Reserve			23,200
(Being transfer of credit balance in Reconstruction account to capital reserve)			

NOTE: In place of Reconstruction Account, Capital Reduction Account or Internal Reconstruction Account may also be used in the above journal entries.

Balance Sheet of MNO Limited (and reduced) as at 31st March, 2021

Particulars	*Note No.*	*₹ '000*
I. Equity and Liabilities		
(1) Shareholder's Funds		
(a) Share Capital	1	3,92,500
(b) Reserves and Surplus	2	23,200
(2) Non-Current Liabilities		
(a) Long-term borrowings	3	1,00,000
(3) Current Liabilities		
(a) Short-term provisions	4	17,280
Total		5,32,980
II. Assets		
(1) Non-current assets		
(a) Property, plant and equipment	5	2,30,000
(2) Current assets		
(a) Inventories		1,01,140
(b) Trade receivables		70,000
(c) Cash and cash equivalents	6	1,31,840
Total		5,32,980

Notes to Accounts

		₹'000
1.	Share Capital	
	Equity Share Capital	
	Issued Capital: 35 lakh Equity Shares of ₹ 10 each	3,50,000
	Preference Share Capital	
	Issued Capital: 5 lakh 14% Preference Shares of ₹ 85 each, fully paid up	42,500
	(All the above shares are allotted as fully paid up pursuant to capital reduction scheme by conversion of equity shares without payment being received in cash)	3,92,500
2.	Reserve and Surplus	
	Capital Reserve	23,200
3.	Long-term borrowings	
	12 % Debentures (secured by mortgage of land and building)	90,000
	11% Debentures (unsecured)	10,000
		1,00,000
4.	Short-term provisions	
	Staff Provident Fund	17,280
5.	Property, plant and Equipment	
	Land and building	1,55,000
	Machinery	60,000
	Furniture and Fittings	15,000
		2,30,000
6.	Cash and Cash Equivalents	
	Balance with bank	1,31,800
	Cash in hand	40
		1,31,840

Working Notes:

	₹ (000)
1. Equity Share Capital	
Before Reconstruction	3,50,000
Add: Receipt of Final Call Amount	1,50,000

	Less: Surrender of Equity Share Capital	(1,50,000)
	After Reconstruction	3,50,000
	Preference Share Capital	
	Before Reconstruction	50,000
	Less: Amount written off under scheme of reconstruction	7,500
	Balance after Reconstruction	42,500
2.	Trade Receivables	
	Before Reconstruction	76,400
	Less: Provision for Bad debts	6,400
	Balance after Reconstruction	70,000
3.	Bank Balance	
	Before Reconstruction	2,600
	Add: Receipt of Equity Capital	1,50,000
	Less: Payment of Trade Payables	(20,800)
	Balance after Reconstruction	1,31,800

Question 3

(a) Following is the Balance Sheet of Fox Ltd.

You are required to prepare cash flow statement using Indirect Method.

Particulars	*Note No*	*31st March,2021 (₹)*	*31st March,2020 (₹)*
(I) Equity and Liabilities			
1. Shareholders' Funds			
(a) Share capital	*1*	*5,60,000*	*3,00,000*
(b) Reserve and Surplus	*2*	*35,000*	*25,000*
2. Current Liabilities			
(a) Trade payables		*1,50,000*	*60,000*
(b) Short-term provisions (Provision for taxation)		*8,000*	*5,000*
Total		*7,53,000*	*3,90,000*

(II) Assets			
1. Non-current assets			
Property, Plant and Equipment		*3,50,000*	*1,80,000*
2. Current assets			
(a) Inventories		*1,20,000*	*50,000*
(b) Trade receivables		*1,00,000*	*25,000*
(c) Cash and cash equivalents		*1,05,000*	*90,000*
(d) Other current assets		*78,000*	*45,000*
Total		*7,53,000*	*3,90,000*

Notes to Accounts

Particulars	*31st March,2021 (₹)*	*31st March,2020 (₹)*
1. Share capital		
(a) Equity share capital	*4,10,000*	*2,00,000*
(b) Preference share capital	*1,50,000*	*1,00,000*
	5,60,000	*3,00,000*
2. Reserve and surplus		
Surplus in statement of profit and loss at the beginning of the year	*25,000*	
Add: Profit of the year	*20,000*	
Less: Dividend	*(10,000)*	
Surplus in statement of profit and loss at the end of the year	*35,000*	*25,000*

Additional Information:

1. *Dividend paid during the year ₹ 10,000*
2. *Depreciation charges during the year ₹ 40,000*

(b) Calculate Average Due Date from the following information:

Date of the Bill	***Term***	***Amount (₹)***
10.08.2020	*3 months*	*6,000*
20.10.2020	*60 days*	*5,000*

02.12.2020	*2 months*	*4,000*
16.01.2021	*60 days*	*2,000*
05.03.2021	*2 months*	*3,000*

(10 + 6 = 16 Marks)

Answer

(a) **Fox Ltd.**

Cash Flow Statement for the year ended 31st March, 2021

	₹	₹
Cash flows from operating activities		
Net Profit (35,000 less 25,000)	10,000	
Add: Dividend	10,000	
Provision for tax	8,000	
Net profit before taxation and extraordinary items	28,000	
Adjustments for:		
Depreciation	40,000	
Operating profit before working capital changes		68,000
Increase in trade receivables	(75,000)	
Increase in inventories	(70,000)	
Increase in other current assets	(33,000)	
Increase in trade payables	90,000	(88,000)
Cash used in operating activities		(20,000)
Less: Tax paid*		(5,000)
Net cash used in operating activities		(25,000)
Cash flows from investing activities		
Purchase of PPE	(2,10,000)	
Net cash used in investing activities		(2,10,000)
Cash flows from financing activities		
Issue of equity shares for cash	2,10,000	
Issue of preference shares	50,000	
Dividends paid	(10,000)	
Net cash generated from financing activities		2,50,000
Net increase in cash and cash equivalents		15,000

Cash and cash equivalents at beginning of period		90,000
Cash and cash equivalents at end of period		1,05,000

**Provision for tax of last year considered to be paid in the current year.*

Working Note:

	₹
Property, plant and equipment acquisitions	
W.D.V. at 31.3.2021	3,50,000
Add back:	
Depreciation for the year	40,000
	3,90,000
Less: W.D.V. at 31.12.2020	1,80,000
Acquisitions during 2020-2021	2,10,000

(b) Calculation of Average Due Date

(Taking November 13, 2020 as the base date)

Date of bill	*Term*	*Due date (including 3 grace days)*	*Amount ₹*	*No. of days from the base date*	*Product (no. of days x amount)*
10.8.2020	3 months	Nov. 13, 2020	6,000	0	0
20.10.2020	60 days	Dec. 22, 2020	5,000	39	1,95,000
2.12.2020	2 months	Feb. 5, 2021	4,000	84	3,36,000
16.01.2021	60 days	March 20 , 2021	2,000	127	2,54,000
5.03.2021	2 months	May 08, 2021	3,000	176	5,28,000
			20,000		13,13,000

Average due date = Base date+ Days equal to $\frac{\text{Total of products}}{\text{Total amount}}$

= November 13, 2020 +13,13,000/20,000 = 65.65 days

= November 13, 2020 + 66 days (rounded off) = January 18, 2021

Question 4

The following is the Balance Sheet of Shri Anand as on 31st March, 2020.

Liabilities	***Amount (₹)***	***Assets***	***Amount (₹)***
Capital Account	*4,00,000*	*Machinery*	*1,25,000*

Sundry Creditors for		*Furniture*	*25,000*
Purchases	*50,000*	*Stock*	*50,000*
		Debtors	*80,000*
		Cash in hand	*30,000*
		Cash in Bank	*1,40,000*
Total	*4,50,000*	*Total*	*4,50,000*

Fire broke out on the evening of 31st March, 2021, destroying the books of accounts and Furniture. The cash available in the cash box was stolen.

Only the following information is available based on available records:

i. *Sales are made as 25% for cash and the balance on credit. His total sales for the year ended 31st March, 2021 were 20% higher than the previous year. All the sales and purchases of goods were evenly spread throughout the year (as also in the last year).*

ii. *Terms of credit:*

Debtors 2 Months

Creditors 1 Month

iii. *Stock level was maintained at ₹ 50,000 all throughout the year.*

iv. *A steady Gross Profit rate of 25% on the turnover was maintained throughout. Creditors are paid by cheque only, except for cash purchase of ₹ 50,000.*

v. *His private records and Bank Pass-book disclosed the following transaction for the year.*

Miscellaneous Business expenses	*₹ 1,70,000 (including ₹ 10,000 paid by cheque and ₹ 20,000 was outstanding as on 31st March,2021)*
Repairs	*₹ 8,000(paid by cash)*
Addition to machinery	*₹ 50,000 (paid by cheque)*
Personal drawing	*₹ 48,000 (paid by cheque)*
Travelling expenses	*₹ 24,000 (paid by cheque)*
Introduction of additional capital by depositing into the Bank	*₹ 20,000*

vi. *Collections from debtors were all through cheques.*

vii. *Depreciation on Machinery is to be provided @15% on the Closing Book Value.*

viii. *The Cash stolen is to be charged to the Profit and Loss Account.*

ix. *Loss of furniture is to be adjusted from the Capital Account.*

Prepare a statement of Trading, Profit and Loss for the year ended 31st March, 2021 and Balance Sheet as on the date.

Make appropriate assumptions wherever necessary.

All workings should from part of your answer. **(16 Marks)**

Answer

Trading and Profit and Loss Account of Shri Anand

for the year ended 31st March, 2021

	₹		₹
To Opening Stock	50,000	By Sales	7,68,000
To Purchases	5,76,000	By Closing Stock	50,000
To Gross Profit c/d	1,92,000		
	8,18,000		8,18,000
To Business Expenses	1,70,000	By Gross Profit b/d	1,92,000
To Repairs	8,000	By By Net Loss	60,250
To Depreciation	26,250		
To Travelling Expenses	24,000		
To Loss by theft	24,000		
	2,52,250		2,52,250

Balance Sheet of Shri Anand as at 31st March, 2021

Liabilities	₹	₹	Assets	₹	₹
Capital	4,00,000		Machinery	1,25,000	
Add: Additional Capital	20,000		*Add:* additions	50,000	
Less: Net Loss	(60,250)			1,75,000	
	3,59,750		Less: Depreciation	(26,250)	1,48,750
Less: Loss of Furniture	(25,000)		Stock in Trade		50,000
Drawings	(48,000)	2,86,750	Sundry Debtors		96,000
Sundry Creditors		43,833	Bank		55,833
Outstanding Expenses		20,000			
		3,50,583			3,50,583

Working Notes:

1.	Sales during 2020-2021	₹
	Debtors as on 31st March, 2020	80,000
	(Being equal to 2 months' sales)	

	Total credit sales in 2019- 2020, ₹ 80,000 × 6	4,80,000
	Cash Sales, being equal to 1/3rd of credit sales or 1/4th of the total	1,60,000
	Sales in 2019- 2020	6,40,000
	Increase, 20% as stated in the problem	1,28,000
	Total sales during 2020-2021	7,68,000
	Cash sales : 1/4th	1,92,000
	Credit sales : 3/4th	5,76,000
2.	Debtors equal to two months credit sales	96,000
3.	Purchases	
	Sales in 2020-2021	7,68,000
	Gross Profit @ 25%	1,92,000
	Cost of goods sold being purchases	5,76,000
	(Since there is no change in stock level)	
4.	Sundry Creditors for goods	
	(₹ 5,76,000 – ₹ 50,000) /12 = ₹ 5,26,000/12	43,833
5.	Collections from Debtors	
	Opening Balance	80,000
	Add: Credit Sales	5,76,000
		6,56,000
	Less: Closing Balance	(96,000)
		5,60,000
6.	Payment to Creditors	
	Opening Balance	50,000
	Add: Credit Purchases (₹ 5,76,000 – ₹ 50,000)	5,26,000
		5,76,000
	Less: Closing Balance	(43,833)
	Payment by cheque	5,32,167

7. **Cash and Bank Account**

	Particulars	Cash	Bank		Particulars	Cash	Bank
To	Balance b/d	30,000	1,40,000	By	Payment to Creditors	50,000	5,32,167
To	Collection from Debtors	–	5,60,000	By	Misc. Expenses	1,40,000	10,000
To	Sales	1,92,000	–	By	Repairs	8,000	–
To	Additional Capital	–	20,000	By	Addition to Machinery	–	50,000

			By	Travelling Expenses	-	24,000
			By	Private Drawings	-	48,000
			By	Loss by theft	24,000	-
			By	Balance c/d		55,833
	2,22,000	7,20,000			2,22,000	7,20,000

Question 5

Ramesh, Suresh and Ganesh were in partnership sharing profit & losses in the ratio of 9:4:2 respectively. Suresh retired from partnership on 31st March 2021, when the firms balance sheet was as under:

Balance Sheet as at 31.03.2021

Liabilities	*(₹000)*	*(₹000)*	*Assets*	*(₹000)*	*(₹000)*
Capital Accounts:			*Property, Plant and Equipment*		
Ramesh	*3,375*		*Land & Building*	*3,125*	
Suresh	*1,500*		*Furniture*	*332.5*	
Ganesh	*750*	*5,625*	*Plant*	*1062.5*	*4,520*
Current Liabilities			*Current Assets*		
Trade Payable		*750*	*Inventories*	*1,000*	
			Trade receivables	*500*	
			Cash and Bank	*355*	*1,855*
Total		*6,375*	*Total*		*6,375*

Suresh's share in goodwill and capital was acquired by Ramesh and Ganesh in the ratio of 1:3 respectively, the continuing partners bringing in the necessary finance to pay off Suresh. The partnership deed provided that on retirement or admission of a partner, the goodwill of the firm is to be valued at 3 times the average annual profit of the firm for 4 years ended on the date of retirement or admission. The profits of the firm during the four years ended 31st March 2021 were:

	(₹000)
2017-18:	*56.5*
2018-19:	*312.5*
2019-20:	*750*
2020-21:	*875*

The deed further provided that the goodwill account is not to appear in the books of accounts at all. The continuing partners agreed that with effect from 01st April 2021, Rajesh, son of Ramesh is admitted as a partner with 25% share of profits. Ramesh gifts to Rajesh by transfer from his capital accounts an amount sufficient to cover up 12.50% of capital and goodwill requirement. The balance 12.50% of capital and goodwill requirement is purchased by Rajesh from Ramesh and Ganesh in the ratio of 2:1 respectively.

You are required to prepare:

(i) A statement showing the calculation of continuing partners' share of profits.

(ii) The balance sheet of the firm after Rajesh's admission and

(iii) Partners' Capital Accounts. **(16 Marks)**

Answer

(i) Statement showing the calculation of partners' share of profits

	Ramesh	***Suresh***	***Ganesh***	***Rajesh***
Ratio before retirement of Suresh Ltd.	$\frac{9}{15}$	$\frac{4}{15}$	$\frac{2}{15}$	
Adjustment on retirement	$(+)\frac{1}{15}$	—	$(+)\frac{3}{15}$	
New ratio before admission of Rajesh	$\frac{10}{15}$		$\frac{5}{15}$	
On admission of Rajesh: Gift by Ramesh (12.5/100)	$(-)\frac{1}{8}$			$(+)\frac{1}{8}$
Purchase from Ramesh & Ganesh*	$(-)\frac{2}{24}$		$(-)\frac{1}{24}$	$(+)\frac{3}{24}$
New ratio after admission of Rajesh	$\frac{11}{24}$		$\frac{7}{24}$	$\frac{6}{24}$
* Purchase from Ramesh = 2/3 × 1/8 = 2/24 Purchase from Ganesh = 1/3 × 1/8 = 1/24				

(ii) Balance Sheet as on 1st April, 2021

Liabilities	*Amount*	*Amount*	*Assets*	*Amount*	*Amount*
	₹000	*₹000*		*₹000*	*₹000*
Capital accounts:			Property, plant & equipment:		
Ramesh	3,437.5		Land and building	3,125.0	

Ganesh	2,187.5		Furniture	332.5	
Rajesh	1,875.0	7,500	Plant	1,062.5	4,520
Current Liabilities:			Current assets:		
Trade payables		750	Trade receivables		500
			Inventory		1,000
			Cash and bank		2,230
		8,250			8,250

(iii) Partners' Capital Accounts

		Ramesh	*Suresh*	*Ganesh*	*Rajesh*			*Ramesh*	*Suresh*	*Ganesh*	*Rajesh*
		₹'000	*₹'000*	*₹'000*	*₹'000*			*₹'000*	*₹'000*	*₹'000*	*₹'000*
To	Suresh	125		375		By	Balance b/d	3,375	1,500	750	
To	Rajesh	937.5				By	Ramesh		125		
To	Ramesh				156.25	By	Ganesh		375		
To	Ganesh				78.125	By	Cash and				
To	Cash and Bank		2,000				Bank (Bal.				
To	Balance c/d	3,437.5		2,187.5	1,875		figure)	968.75		1,734.375	1,171.875
						By	Ramesh				937.5
						By	Rajesh	156.25		78.125	
		4,500	2,000	2,562.5	2,109.375			4,500	2,000	2,562.5	2,109.375

Working Notes:

(₹ in thousand)

1. Adjustment of Goodwill on Retirement

Value of Goodwill = (562.5 + 312.5 + 750 + 875) × ¾ = 1,875

Share of Suresh = 1,875 × 4/15 = 500

Adjustment through partners' capital accounts

Ramesh : $\frac{1}{4}$ x 500 = 125 (Dr.)

Suresh : $\frac{4}{15}$ x 1,875 = 500 (Cr.)

Ganesh : $\frac{3}{4}$ x 500 = 375 (Dr.)

2. **Closing Balances of Capital Accounts**

Suresh share of capital and goodwill = 1,500 + 500 = 2,000

This represents 4/15th share of capital and goodwill requirement of the firm.

Thus, total capital and goodwill requirement = 2,000 x $\frac{15}{4}$ = 7,500

Hence, closing capital balances (in new profit sharing ratio of 11 : 7 : 6 should be

Ramesh : $\frac{11}{24}$ x 7,500 = 3,437.5

Ganesh : $\frac{7}{24}$ x 7,500 = 2,187.5

Rajesh : $\frac{6}{24}$ x 7,500 = 1,875

Gift by Ramesh to Rajesh : $\frac{1}{2}$ x 1,875 = 937.5

(Debit to Ramesh 's capital A/c and credit to Rajesh 's capital A/c)

3. **Adjustment of Goodwill on Admission**

Goodwill of the firm = 1,875

Rajesh's share of goodwill = $\frac{1}{4}$ x 1,875 = 468.75

(a) Gift by Ramesh = $\frac{1}{2}$ x 468.75 = 234.375

(Included in the gift of 937.5 – see W.N. 2)

(b) Purchase from Ramesh and Ganesh = 234.375

(in 2 : 1 ratio)

Thus, adjustment of goodwill purchased through capital accounts

Ramesh : $\frac{2}{3}$ x 234.375 = 156.25 (Cr.)

Ganesh : $\frac{1}{3}$ x 234.375 = 78.125 (Cr.)

Rajesh : $\frac{1}{2}$ x 468.75 = 234.375 (Dr.)

4. Closing Cash and Bank balance

	₹ '000
Amount given	355
Amount brought in by partners	3,875
	4,230
Less: Payment to Suresh	2,000
Balance of Cash and Bank	2,230
Net increase = ₹ 1,875 (2,230 - 355) (Equivalent to the value of goodwill)	

Question 6

(a) RMP Ltd. give the following Trading and Profit and Loss Account for year ended 31st December, 2020.

Trading and Profit and Loss Accounts for the year ended 31st December,2020

Particulars	*Amount (₹)*	*Particulars*	*Amount (₹)*
To Opening Stock	*60,000*	*By Sales*	*10,00,000*
To Purchases	*3,50,000*	*By Closing Stock*	*90,000*
To Wages	*1,80,000*		
(₹ 20,000 for skilled labour)			
To Manufacturing expenses	*2,00,000*		
To Gross Profit	*3,00,000*		
Total	*10,90,000*	*Total*	*10,90,000*
To Office administrative Exp.	*80,000*	*By Gross Profit*	*3,00,000*
To Advertising	*25,000*		
To Selling expense (Fixed)	*50,000*		
To Commission on sales	*60,000*		
To Carriage outward	*20,000*		
To Net Profit	*65,000*		
Total	*3,00,000*	*Total*	*3,00,000*

The company had taken out policies both against loss of stock and against loss of profit, the amounts being ₹ 60,000 and ₹ 2,00,000 respectively. A fire occurred on 1st May, 2021 and as a result of which sales were seriously affected for a period of 4 months. You are given the following further information:

i. Purchases, wages and other manufacturing expenses for the first 4 months of 2021 were ₹ 1,10,000, ₹ 60,000 and ₹ 30,000 respectively.

ii. Sales for the same period of the year 2021 were ₹ 3,00,000.

iii. Other sales figures were as follows:

	Amount (₹)
From 1st January,2020 to 30th April, 2020	*4,00,000*
From 1st May,2020 to 31st August,2020	*4,50,000*
From 1st May,2021 to 31st August,2021	*80,000*

iv. Due to rise in wages, gross profit during 2021 was expected to decline by 4% on sales.

v. Additional expenses incurred during the period after fire amounted to ₹ 1,50,000. The amount of the policy included ₹ 1,20,000 for expenses leaving the rest uncovered.

You are required to ascertain the claim for loss of stock and for loss of profit.

All workings should form part of your answer.

(b) Hybrid Motors Ltd. purchased from Sneha Motors 3 Tempos costing ₹ 50,000 each on the hire purchase system on 1-1-2019. Payment was to be made ₹ 30,000 down and the remainder in 2 equal annual instalments payable on 31-12-2019 and 31-12-2020 together with interest @9%. Hybrid Motors Ltd. charge off depreciation at the rate of 20% on the diminishing balance. It paid the instalments due at the end of the first year i.e. 31-12-2019 but expressed inability to pay the next instalment on 31-12-2020. Sneha Motors agreed to leave one Tempo with the purchaser on 31-12-2020 adjusting the value of the other 2 Tempos against the amount due on 31-12-2020. The tempos were valued on the basis of 30% depreciation annually on the diminishing balance. Balance amount was to be settled in cash on 31-12-2020 between the parties. Show the necessary accounts in the books of Hybrid Motors Ltd. for the years 2019 and 2020.

(10 +6 = 16 Marks)

Answer

(a) Calculation of Claim for loss of stock

Memorandum Trading Account for the period 1st Jan 21 to 1st May, 2021

	₹		₹
To Opening Stock	90,000	By Sales	3,00,000
To Purchases	1,10,000	By Closing stock	68,000
To Wages	60,000		

To Manufacturing expenses	30,000		
To Gross Profit @ 26% on sales (W.N)	78,000		
	3,68,000		3,68,000

Claim for loss of stock will be limited to ₹ 60,000 only which is the amount of Insurance policy and no average clause will be applied as entire stock is lost.

Working Note:

Rate of Gross Profit in 2020

$$\frac{\text{Gross Profit}}{\text{Sales}} \times 100$$

$$\frac{3,00,000}{10,00,000} \text{ x } 100 = 30\%$$

In 2021, Gross Profit is expected to decrease by 4% as a result of increase in wage cost, hence the rate of Gross Profit for loss of stock is taken at 26%.

Calculation of Claim for Loss of Profit

(a) Short Sales :

Sales from 1st May, 2020 to 31st Aug. 2020	4,50,000
Less : 25% decrease observed (Jan-April ₹ 3,00,000 instead of ₹ 4,00,000)	(1,12,500)
	3,37,500
Less: Sales from 1st May, 2021 to 31st Aug 2021	(80,000)
Short-Sales	2,57,500

(b) Gross profit ratio

$$\frac{\text{Net Profit+Insured standing charges}}{\text{Sales}} \times 100$$

$\frac{65,000+1,20,000}{10,00,000}$ x 100 =	18.5%
Less: Expected decrease due to rise in wage	4%
	14.5%

(c) Loss of Gross Profit

14.5% on short sales ₹ 2,57,500 = ₹ 37,338 (rounded off)

(d) Annual turnover (Adjusted) (12 months to 1st May, 2021):

	Amount (₹)
Sales for 2020	10,00,000
Less: From 1-1-2020 to 30-4-2020	(4,00,000)
	6,00,000
Add: From 1-1-2021 to 30-4-2021	3,00,000
Sales from 1.5.20 to 30.4.21	9,00,000
Less: 25% decreasing trend	(2,25,000)
	6,75,000
Gross Profit on annual adjusted turnover @ 14.5%	97,875*

(e) Amount allowable in respect of additional expenses

Least of the following:	Amount (₹)
(i) Actual expenses	1,50,000
(ii) Gross Profit on sales during indemnity period 14.5% of ₹ 80,000	11,600

(iii) $\frac{\text{Gross profit on annual (adjusted) turnover}}{\text{Gross profit as above } + \text{ Uninsured charges}} \times \text{Additional Expenses}$

(97,875/ 1,27,875) x 1,50,000 = ₹ 1,14,809*

Least of the above i.e. ₹ 11,600 is admissible.

Total Claim for loss of profit

Loss of Gross Profit	₹ 37,338
Add: Additional expenses	₹ 11,600
	₹ 48,938

Insurance claim for loss of profit will be of ₹ 48,938 only.

Note: It has been assumed that trend adjustment is required on total amount of annual turnover. However, part of the annual turnover represents trend adjustment. Alternatively, annual adjusted turnover (12 months upto 1st May, 2021) can also be calculated as follows:

	Amount (₹)
Sales for 2020	10,00,000
Less: Sales from 1-1-2020 to 30-4-2020	(4,00,000)
	6,00,000

Less: 25% decreasing trend	(1,50,000)
	4,50,000
Add: Sales from 1-1-2021 to 30-4-2021	3,00,000
	7,50,000
Gross Profit on annual turnover @ 14.5%	1,08,750

In this case, amount allowable in respect of additional expenses will be computed as (1,08,750/ 1,38,750) x 1,50,000 = 1,17,568 (rounded off)

(b) In the books of Hybrid Motors Ltd.

Tempos Account

Year		₹	*Year*		₹
1.1.2019	To Sneha Motors A/c	1,50,000	31.12.19	By Depreciation A/c	30,000
			31.12.19	By Balance c/d	1,20,000
		1,50,000			1,50,000
1.1.2020	To Balance b/d	1,20,000	31.12.2020	By Depreciation	24,000
			31.12.2020	By Sneha Motors (value of 2 tempo taken)	49,000
			31.12.2020	By P & L A/c (balancing figure)	15,000
			31.12.2020	By Balance c/d (one tempo left)	32,000
		1,20,000			1,20,000

Sneha Motors Account

Year		₹	Year		₹
1.1.2019	To Bank A/c	30,000	1.1.2019	By Tempos A/c	1,50,000
31.12.2019	To Bank A/c	70,800	31.12.2019	By Interest @ 9% on ₹ 1,20,000	10,800
31.12.2019	To Balance c/d	60,000			
		1,60,800			1,60,800
31.12.2020	To Tempos A/c	49,000	1.1.2020	By Balance b/d	60,000
31.12.2020	To Bank A/c	16,400	31.12.2020	By Interest A/c	5,400
		65,400			65,400

Working Notes:

		₹
1.	Value of a Tempo left with the buyer:	
	Cost	50,000
	Depreciation @ 20% p.a. under WDV method for 2 years [i.e. ₹ 10,000 + ₹ 8,000]	(18,000)
	Value of the Tempo left with the buyer at the end of 2nd year	32,000
2.	Value of 2 Tempos taken by the seller:	
	Cost ₹ 50,000 × 2	1,00,000
	Depreciation @ 30%	
	Under WDV method for 2 years [i.e. ₹ 30,000 + ₹ 21,000]	(51,000)
	Value of Tempos taken away at the end of 2nd year	49,000

Question 7

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

(a) *Explain advantages of Customized Accounting Package.*

(b) ***Today Ltd.***

Balance Sheet (Equity and Liability Side only)

as at 31st March, 2021

Particulars	***Note***	***(₹'000)***
I. Equity and Liabilities		
(1) Shareholders' fund		
(a) Share Capital	*1*	*40,000*
(b) Reserves and Surplus	*2*	*48,000*
(2) Current Liabilities		
(a) Trade Payables		*7,500*
Total		*95,500*

Notes:

Particulars	***(₹'000)***
1. Share Capital	
Authorized	*90,000*
Issued and subscribed	
40 lakh Equity shares of ₹ 10 each, fully paid up	*40,000*
2. Reserves and surplus	
Securities Premium	*15,000*

General Reserve	*20,000*
Surplus i.e. credit balance of profit and loss account	*13,000*
	48,000

The company decided to issue bonus shares at the rate of three shares for every four shares held. For this purpose, it decided to utilize securities premium, ₹ 80 lakhs out of reserve and balance out of the Profit and Loss Account. Draw the Equity and liabilities side of the balance sheet after issue of bonus shares.

(c) Toys Ltd. was making provision for non-moving stocks based on no issues having occurred for the last 12 months up to 31.03.2020. The company now wants to change it and make provision based on technical evaluation during the year ending 31.03.2021. Total value of stock on 31.3.2021 is ₹ 300 lakhs. Provision required based on technical evaluation amounts to ₹ 7.50 lakhs. However, provision required based on 12 months (no issues) is ₹ 10.00 lakhs. You are required to discuss the following points in the light of relevant Accounting Standard.

(i) Does this amount to change in accounting Policy?

(ii) Can the company change the method of accounting?

(iii) Explain how it will be disclosed in the annual accounts of Toys Ltd. for the year 2020-21?

(d) On 01.04.2020, Mr. Ram purchased 2,000 equity shares of ₹ 100 each in Exchange Limited @ ₹ 150 each from a Broker, who charged 2% brokerage. On 31.01.2021, Bonus was declared in the ratio of 1 share for every 2 shares held.

Before and after the record date of bonus shares, the shares were quoted at ₹ 180 per share and ₹ 120 per share respectively.

On 31.03.2021, Mr. Ram sold bonus shares to a Broker, who charged 2% brokerage.

Prepare the Investment Account in the books of Mr. Ram, who held the shares as current assets and closing value of Investment shall be made at cost or market value whichever is lower.

(e) The following information of City Club (A non-profit organization) is provided:

Opening balance of sports materials	*₹ 60,000*
Closing balance of sports materials	*₹ 35,000*
Sports materials purchased in cash during the year	*₹ 25,000*
Payments made to creditors during the year	*₹ 65,000*
Opening balance of Creditors	*₹ 25,000*
Closing balance of Creditors	*₹ 30,000*

Out of the sports materials used 40% was consumed by the club, rest was sold at a profit of 20% on cost

You are required to compute the following:

(i) Total Cost of sports Materials consumed during the year,

(ii) Sale Value of sports materials for the year. ***(4 Parts X 4 Marks = 16 Marks)***

Answer

(a) Following are the advantages of the customized accounting packages:

1. The functional areas that would otherwise have not been covered get computerized.
2. The input screens can be tailor made to match the input documents for ease of data entry.
3. The reports can be as per the specification of the organization. Many additional MIS reports can be included in the list of reports.
4. Bar-code scanners can be used as input devices suitable for the specific needs of an individual organization.
5. The system can suitably match with the organizational structure of the company.

(b) Balance Sheet (Equity and liability side only) as at 31st March 2021 (after bonus issue)

			Particulars	*Notes*	*Amount (₹ 000')*
			Equity and Liabilities		
1			Shareholders' funds		
	a		Share capital	1	70,000
	b		Reserves and Surplus	2	18,000
2			Current liabilities		
	a		Trade payables		7,500
			Total		95,500

Notes to Accounts:

		Amount (₹ 000')
1	**Share Capital**	
	Authorized share capital	90,000
	Issued and subscribed	
	70 lakh Equity shares of ₹ 10 each, fully paid (Out of above, 30 lakh equity shares @ ₹ 10 each were issued by way of bonus)	70,000

2	**Reserves and Surplus**		
	Securities Premium	15,000	
	Less: Utilized for bonus issue	(15,000)	Nil
	General reserve	20,000	
	Less: Utilized for bonus issue	(8,000)	12,000
	Profit & Loss Account	13,000	
	Less: Utilized for bonus issue	(7,000)	6,000
			18,000

(c) (i) The decision of making provision for non-moving inventories on the basis of technical evaluation does not amount to change in accounting policy.

(ii) Accounting policy of a company may require that provision for non-moving inventories should be made. The method of estimating the amount of provision may be changed in case a more prudent estimate can be made.

(iii) In the given case, considering the total value of inventory, the change in the amount of required provision of non-moving inventory from ₹ 10 lakhs to ₹ 7.5 lakhs is also not material. The disclosure can be made for such change in the following lines by way of notes to the accounts in the annual accounts of Toys Ltd. for the year 2020-21

"The company has provided for non-moving inventories on the basis of technical evaluation unlike preceding year "Had the same method been followed as in the previous year, the profit for the year and the corresponding effect on the year end net assets would have been lower by ₹ 2.5 lakh."

(d) **In the books of Mr. Ram**

Investment Account
for the year ended 31st March, 2021
(Script: Equity Shares of Exchange Ltd.)

Date	*Particulars*	*Nominal Value (₹)*	*Cost (₹)*	*Date*	***Particulars***	*Nominal Value (₹)*	*Cost (₹)*
1.4.2020	To Bank A/c (W.N.1)	2,00,000	3,06,000	31.3.2021	By Bank A/c (W.N.2)	1,00,000	1,17,600
31.1.2021	To Bonus shares	1,00,000	–	31.3.2021	By Balance c/d (W.N.4)	2,00,000	2,04,000
31.3.2021	To Profit and Loss A/c						

	(W.N.3)		15,600				
		3,00,000	3,21,600			3,00,000	3,21,600

Working Notes:

1. Cost of equity shares purchased on 1st April, 2020

   = Cost + Brokerage + Cost of transfer stamps

   = 2,000 × ₹ 150 + 2% of ₹ 3,00,000

   = ₹ 3,06,000

2. Sale proceeds of equity shares sold on 31st March, 2021

   = Sale price – Brokerage

   = 1,000 × ₹ 120 – 2% of ₹ 1,20,000

   = ₹ 1,17,600.

3. Profit on sale of bonus shares on 31st March, 2021

   Sale proceeds = ₹ 1,17,600

   Average cost = ₹ [3,06,000/ 3,00,000 ×1,00,000]

   = ₹ 1,02,000

   Profit = ₹ 1,17,600 – ₹ 1,02,000= ₹ 15,600.

4. Valuation of equity shares on 31st March, 2021

   Cost = ₹ [3,06,000 × 2,00,000/3,00,000]= ₹ 2,04,000 i.e ₹ 102 per share

   Market Value = 2,000 shares × ₹ 120 = ₹ 2,40,000

   Closing stock of equity shares has been valued at ₹ 2,04,000 i.e. cost being lower than the market value.

(e)

		₹
	Opening balance of sports material	60,000
	Add: Purchases during the year (cash 25,000 + credit 70,000)	95,000
		1,55,000
	Less: Closing Stock	35,000
	Sports material used	1,20,000
(i)	Total cost of sports material consumed in the Club 40% of used material was consumed.	48,000

	(i.e. 40% of 1,20,000)	
(ii)	Sale value of sports material	
	Cost of sports material sold (1,20,000 - 48,000)	72,000
	Add: Profit @20% on cost	14,400
		86,400

Working Note:

Calculation of Credit purchase of Sports Material

	₹		₹
To Bank	65,000	By Balance b/d	25,000
To Balance c/d	30,000	By Purchases (Balancing Figure)	70,000
	95,000		95,000