PAPER – 1 : ACCOUNTING

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

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

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

Working Notes should form part of the answer.

Question 1

(a) *First Ltd. began construction of a new factory building on 1st April, 2017. It obtained ₹ 2,00,000 as a special loan to finance the construction of the factory building on 1st April, 2017 at an interest rate of 8% per annum. Further, expenditure on construction of the factory building was financed through other non-specific loans. Details of other outstanding non-specific loans were:*

Amount (₹)	Rate of Interest per annum
4,00,000	9%
5,00,000	12%
3,00,000	14%

The expenditures that were made on the factory building construction were as follows:

Date	Amount (₹)
1st April, 2017	3,00,000
31st May, 2017	2,40,000
1st August, 2017	4,00,000
31st December, 2017	3,60,000

The construction of factory building was completed by 31st March, 2018. As per the provisions of AS 16, you are required to:

(1) *Calculate the amount of interest to be capitalized.*

(2) *Pass Journal entry for capitalizing the cost and borrowing cost in respect of the factory building.*

(b) *On 15th June, 2018, Y limited wants to re-classify its investments in accordance with AS 13 (revised). Decide and state the amount of transfer, based on the following information:*

(1) *A portion of long term investments purchased on 1st March, 2017 are to be re-classified as current investments. The original cost of these investments was ₹ 14 lakhs but had been written down by ₹ 2 lakhs (to recognise 'other than temporary'*

decline in value). The market value of these investments on 15th June, 2018 was ₹ 11 lakhs.

(2) Another portion of long term investments purchased on 15th January, 2017 are to be re-classified as current investments. The original cost of these investments was ₹ 7 lakhs but had been written down to ₹ 5 lakhs (to recognize 'other than temporary' decline in value). The fair value of these investments on 15th June, 2018 was ₹ 4.5 lakhs.

(3) A portion of current investments purchased on 15th March, 2018 for ₹ 7 lakhs are to be re-classified as long term investments, as the company has decided to retain them. The market value of these investments on 31st March, 2018 was ₹ 6 lakhs and fair value on 15th June 2018 was ₹ 8.5 lakhs,

(4) Another portion of current investments purchased on 7th December, 2017 for ₹ 4 lakhs are to be re-classified as long term investments. The market value of these investments was:

on 31st March, 2018	*₹ 3.5 lakhs*
on 15th June, 2018	*₹ 3.8 lakhs*

(c) State whether the following statements are 'True' or 'False'. Also give reason for your answer.

(1) As per the provisions of AS-5, extraordinary items should not be disclosed in the statement of profit and loss as a part of net profit or loss for the period.

(2) As per the provisions of AS-12, government grants in the nature of promoters' contribution which become refundable should be reduced from the capital reserve.

(3) As per the provisions of AS-2, inventories should be valued at the lower of cost and selling price.

(4) As per the provisions of AS-13, a current investment is an investment, that by its nature, is readily realisable and is intended to be held for not more than six months from the date on which such investment is made.

(5) As per the provisions of AS-4, a contingency is a condition or situation, the ultimate outcome of which (gain or loss) will be known or determined only on the occurrence of one or more uncertain future events.

(d) The financial statements of PQ Ltd. for the year 2017-18 approved by the Board of Directors on 15th July, 2018. The following information was provided :

(i) A suit against the company's advertisement was filed by a party on 20th April, 2018, claiming damages of ₹ 25 lakhs.

(ii) The terms and conditions for acquisition of business of another company have been decided by March, 2018. But the financial resources were arranged in April, 2018 and amount invested was ₹ 50 lakhs.

(iii) Theft of cash of ₹ 5 lakhs by the cashier on 31st March, 2018 but was detected on 16th July, 2018.

(iv) Company sent a proposal to sell an immovable property for ₹ 40 lakhs in March, 2018. The book value of the property was ₹ 30 lakhs on 31st March, 2018. However, the deed was registered on 15th April, 2018.

(v) A, major fire has damaged the assets in a factory on 5th April, 2018. However, the assets are fully insured.

With reference to AS-4 "Contingencies and events occurring after the balance sheet date", state whether the above mentioned events will be treated as contingencies, adjusting events or non-adjusting events occurring after the balance sheet date.

(4 Parts x 5 Marks = 20 Marks)

Answer

(a) (i) Computation of average accumulated expenses

		₹
₹ 3,00,000 x 12 / 12	=	3,00,000
₹ 2,40,000 x 10 / 12	=	2,00,000
₹ 4,00,000 x 8 / 12	=	2,66,667
₹ 3,60,000 x 3 / 12	=	90,000
		8,56,667

(ii) Calculation of average interest rate other than for specific borrowings

Amount of loan (₹)	Rate of interest		Amount of interest (₹)
4,00,000	9%	=	36,000
5,00,000	12%	=	60,000
3,00,000	14%	=	42,000
			1,38,000
Weighted average rate of interest $\left(\frac{1,38,000}{12,00,000}\times 100\right)$		=	11.5%

(iii) Amount of interest to be capitalized

		₹
Interest on average accumulated expenses:		
Specific borrowings (₹ 2,00,000 x 8%)	=	16,000

Non-specific borrowings (₹ 6,56,667* x 11.5%)	=	75,517
Amount of interest to be capitalised	=	91,517

(iv) Total expenses to be capitalised for building

	₹
Cost of building ₹ (3,00,000 + 2,40,000 + 4,00,000 + 3,60,000)	13,00,000
Add: Amount of interest to be capitalized	91,517
	13,91,517

(v) Journal Entry

Date	Particulars		Dr. (₹)	Cr. (₹)
31.3.2018	Building A/c	Dr.	13,91,517	
	To Building WIP** A/c			13,00,000
	To Borrowing costs A/c			91,517
	(Being amount of cost of building and borrowing cost thereon capitalised)			

(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 ₹ 12 lakhs in the books.

(ii) In this case also, carrying amount of investment on the date of transfer is less than the cost; hence this re-classified current investment should be carried at ₹ 5 lakhs in the books.

(iii) In this case, reclassification of current investment into long-term investments will be made at ₹ 7 lakhs as cost is less than its fair value of ₹ 8.5 lakhs on the date of transfer.

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* *(₹ 8,56,667 – ₹ 2,00,000)*

** *Considering that ₹ 13,00,000 was debited to Building WIP A/c earlier.*

(iv) In this case, market value (considered as fair vale) is ₹ 3.8 lakhs on the date of transfer which is lower than the cost of ₹ 4 lakhs. The reclassification of current investment into long-term investments will be made at ₹ 3.8 lakhs.

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

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

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

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

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

(d) **(i)** Suit filed against the company is a contingent liability but it was not existing as on balance sheet date as the suit was filed on 20th April after the balance Sheet date. As per AS 4, 'Contingencies' used in the Standard is restricted to conditions or situations at the balance sheet date, the financial effect of which is to be determined by future events which may or may not occur. Hence, it will have no effect on financial statements and will be a non-adjusting event.

(ii) In the given case, terms and conditions for acquisition of business were finalised and carried out before the closure of the books of accounts but transaction for payment of financial resources was effected in April, 2018. This is clearly an event occuring after the balance sheet date. Hence, necessary adjustment to assets and liabilities for acquisition of business is necessary in the financial statements for the year ended 31st March 2018.

(iii) Only those significant events which occur between the balance sheet date and the date on which the financial statements are approved, may indicate the need for adjustment to assets and liabilities existing on the balance sheet date or may require disclosure. In the given case, theft of cash was detected on 16th July, 18 after approval of financial statements by the Board of Directors, hence no treatment is required.

(iv) Adjustments to assets and liabilities are not appropriate for events occurring after the balance sheet date, if such events do not relate to conditions existing at the balance sheet date. In the given case, sale of immovable property was under proposal stage (negotiations also not started) on the balance sheet date. Therefore, no adjustment to assets for sale of immovable property is required in the financial statements for the year ended 31st March, 2018.

(v) The condition of fire occurrence was not existing on the balance sheet date. Only the disclosure regarding event of fire and loss being completely insured may be given in the report of approving authority.

Question 2

(a) M/s Amar bought six Scooters from M/s Bhanu on 1st April, 2015 on the following terms:

Down payment	*₹ 3,00,000*
1st instalment payable at the end of 1st year	*₹ 1,59,000*
2nd instalment payable at the end of 2nd year	*₹ 1,47,000*
3rd instalment payable at the end of 3rd year	*₹ 1,65,000*

Interest is charged at the rate of 10% per annum.

M/s Amar provides depreciation @ 20% per annum on the diminishing balance method.

On 31st March, 2018 M/s Amar failed to pay the 3rd instalment upon which M/s Bhanu repossessed two Scooters. M/s Bhanu agreed to leave the other four Scooters with M/s Amar and adjusted the value of the repossessed Scooters against the amount due. The Scooters taken over were valued on the basis of 30% depreciation per annum on written down value. The balance amount remaining in the vendor's account after the above adjustment was paid by M/s Amar after 5 months with interest@ 15% per annum.

M/s Bhanu incurred repairing expenses of ₹ 15,000 on repossessed scooters and sold scooters for ₹ 1,05,000 on 25th April, 2018.

You are required to :

(1) Calculate the cash price of the Scooters and the interest paid with each instalment.

(2) Prepare Scooters Account and M/s Bhanu Account in the books of M/s Amar.

(3) Prepare Goods Repossessed Account in the books of M/s Bhanu.

(b) A fire occurred in the premises of M/s Bright on 25th May, 2017. As a result of fire, sales were adversely affected up to 30th September, 2017. The firm had taken Loss of profit policy (with an average clause) for ₹ 3,50,000 having indemnity period of 5 months. There is an upward trend of 10% in sales.

The firm incurred an additional expenditure of ₹ 30,000 to maintain the sales.

There was a saving of ₹ 5,000 in the insured standing charges.

Actual turnover from 25th May, 2017 to 30th September, 2017	*₹ 1,75,000*
Turnover from 25th May, 2016 to 30th September, 2016	*₹ 6,00,000*
Net profit for last financial year	*₹ 2,00,000*

Insured standing charges for the last financial year	*₹ 1,75,000*
Total standing charges for the last financial year	*₹ 3,00,000*
Turnover for the last financial year	*₹ 15,00,000*
Turnover for one year from 25th May, 2016 to 24th May, 2017	*₹ 14,00,000*

You are required to calculate the loss of profit claim amount, assuming that entire sales during the interrupted period was due to additional expenses. ***(10 + 10 = 20 Marks)***

Answer

(a) (i) Calculation of Interest and Cash Price

No. of installments	*Outstanding balance at the end after the payment of installment*	*Amount due at the time of installment*	*Outstanding balance at the end before the payment of installment*	*Interest*	*Outstanding balance at the beginning*
[1]	*[2]*	*[3]*	*[4] = 2 +3*	*[5] = 4 x 10/110*	*[6] = 4-5*
3rd	-	1,65,000	1,65,000	15,000	1,50,000
2nd	1,50,000	1,47,000	2,97,000	27,000	2,70,000
1st	2,70,000	1,59,000	4,29,000	39,000	3,90,000
Down payment					3,00,000
Total of interest and Total cash price				81,000	6,90,000

(ii) In the books of M/s Amar

Scooters Account

Date	*Particulars*	*₹*	*Date*	*Particulars*	*₹*
1.4.2015	To Bhanu A/c	6,90,000	31.3.2016	By Depreciation A/c	1,38,000
				By Balance c/d	5,52,000
		6,90,000			6,90,000
1.4.2016	To Balance b/d	5,52,000	31.3.2017	By Depreciation A/c	1,10,400
				Balance c/d	4,41,600
		5,52,000			5,52,000
1.4.2017	To Balance b/d	4,41,600	31.3.2018	By Depreciation A/c	88,320
				By M/s Bhanu a/c (Value of 2 Scooters taken over)	78,890
				By Profit and Loss A/c (Bal. fig.)	38,870

				By Balance c/d $\frac{4}{6}$(4,41,600 - 88,320)	2,35,520
		4,41,600			4,41,600

(iii) M/s Bhanu Account

Date	Particulars	₹	Date	Particulars	₹
1.4.15	To Bank (down payment)	3,00,000	1.4.15	By Scooters A/c	6,90,000
31.3.16	To Bank (1st Installment)	1,59,000	31.3.16	By Interest A/c	39,000
	To Balance c/d	2,70,000			
		7,29,000			7,29,000
31.3.17	To Bank (2nd Installment)	1,47,000	1.4.2016	By Balance b/d	2,70,000
	To Balance c/d	1,50,000	31.3.2017	By Interest A/c	27,000
		2,97,000			2,97,000
31.3.18	To Scooter A/c	78,890	1.4.2017	By Balance b/d	1,50,000
	To Balance c/d (b.f.)	86,110	31.3.2018	By Interest A/c	15,000
		1,65,000			1,65,000
31.8.18	To Bank (Amount settled after 5 months)	91,492	1.4.2018	By Balance b/d	86,110
			31.8.2018	By Interest A/c (@ 15 % on bal.) (86,110 x 5/12 x 15/100)	5,382
		91,492			91,492

(iv) In the Books of M/s Bhanu

Goods Repossessed A/c

Date	Particulars	₹	Date	Particulars	₹
31.3.18	To Amar A/c	78,890	31.3.2018	By Balance c/d	78,890
		78,890			78,890
1.04.2018	To Balance b/d	78,890	25.4.2018	By Bank (Sale)	1,05,000
25.4.2018	To Repair A/c	15,000			
25.4.2018	To Profit & Loss A/c	11,110			
		1,05,000			1,05,000

Working Note:

Value of Scooters taken over

	₹
2 Scooters (6,90,000/6 x 2)	2,30,000
Depreciation @ 30% WDV for 3 years (69,000 + 48,300 +33,810)	(1,51,110)
	78,890

(b) Computation of the amount of claim for the loss of profit

1. Reduction in turnover ₹

Turnover from 25th May, 2016 to 30th September, 2016	6,00,000
Add: 10% expected increase	60,000
	6,60,000
Less: Actual Turnover from 25th May, 2017 to 30th September, 2017	(1,75,000)
Short Sales	4,85,000

2. Calculation of loss of Profit

Gross Profit on reduction in turnover @ 25% on ₹ 4,85,000 (see working note 1) 1,21,250

Add: Additional Expenses

Lower of

(i) Actual = ₹ 30,000

(ii) $\text{Additional Exp. x} \dfrac{\text{G.P. on Adjusted Annual Turnover}}{\text{G.P. as above + Uninsured Standing Charges}}$

30,000x [3,85,000/(3,85,000+1,25,000)] = ₹ 22,647

(iii) G.P. on sales generated by additional expenses

175000 x 25% = ₹ 43,750

It is given that entire sales during the interrupted period was due to additional expenses.

Therefore, lower of above is (i, ii & iii)	₹ 22,647
	1,43,897
Less: Saving in Insured Standing Charges	(5,000)
Amount of claim before application of Average Clause	1,38,897

3. Application of Average Clause:

$$\frac{\text{Amount of Policy}}{\text{G.P. on Annual Turnover}} \times \text{Amount of Claim}$$

(3,50,000/3,85,000) x 1,38,897= ₹ 1,26,270

Amount of claim under the policy = ₹ 1,26,270

Working Notes:

1. Rate of Gross Profit for last Financial Year:

	₹
Net Profit for last financial year	2,00,000
Add: Insured Standing Charges	1,75,000
Gross Profit	3,75,000
Turnover for the last financial year	15,00,000

Rate of Gross Profit = $\frac{3,75,000}{15,00,000} \times 100$ = 25%

2. Annual Turnover (adjusted):

Turnover from 25 May, 2016 to 24 May, 2017	14,00,000
Add: 10% expected increase	1,40,000
	15,40,000
Gross Profit on ₹ 15,40,000 @ 25%	3,85,000
Standing charges not Insured (3,00,000 – 1,75,000)	1,25,000
Gross profit + Uninsured standing charges	5,10,000

Question 3

(a) *The following balances appeared in the books of M/s Sunshine Traders:*

	As on 31-03-2018 (₹)	*As on 31-03-2019 (₹)*
Land and Building	*2,50,000*	*2,50,000*
Plant and Machinery	*1,10,000*	*1,65,000*
Office Equipment	*52,500*	*42,500*
Sundry Debtors	*77,750*	*1,10,250*
Creditors for Purchases	*47,500*	*?*
Provision for office expenses	*10,000*	*7,500*
Stock	*?*	*32,500*

Long Term loan from ABC Bank @ 10% per annum	*62,500*	*50,000*
Bank	*12,500*	*?*
Capital	*4,65,250*	*?*

Other information was as follows:

	In (₹)
- *Collection from Sundry Debtors*	*4,62,500*
- *Payments to Creditors for Purchases*	*2,62,500*
- *Payment of office Expenses*	*21,000*
- *Salary paid*	*16,000*
- *Selling Expenses paid*	*7,500*
- *Total sales*	*6,25,000*
Credit sales (80% of Total sales)	
- *Credit Purchases*	*2,70,000*
Cash Purchases (40% of Total Purchases)	
- *Gross Profit Margin was 25% on cost*	
- *Discount Allowed*	*2,750*
- *Discount Received*	*2,250*
- *Bad debts*	*2,250*

- Depreciation to be provided as follows:

Land and Building - 5% per annum

Plant and Machinery - 10% per annum

Office Equipment - 15% Per annum

- *On 01.10.2018 the firm sold machine having book value, ₹ 20,000 (as on 31.03.2018) at a loss of ₹ 7,500. New machine was purchased on 01.01.2019.*
- *Office equipment was sold at its book value on 01.04.2018.*
- *Loan was partly repaid on 31.03.2019 together with interest for the year.*

You are required to prepare:

(i) Trading and Profit & Loss account for the year ended 31st March, 2019.

(ii) Balance Sheet as on 31st March 2019. ***(12 Marks)***

(b) *M/s Rani & Co. has head office at Singapore and branch at Delhi (India). Delhi branch is an integral foreign operation of M/s Rani & Co. Delhi branch furnishes you with its Trial Balance as on 31st March, 2019 and the additional information thereafter:*

	Dr.	Cr.
	Rupees in thousands	
Stock on 1st April, 2018	600	-
Purchases and Sales	1,600	2,400
Sundry Debtors and Creditors	800	600
Bills of Exchange	240	480
Wages	1,120	-
Rent, rates and taxes	720	-
Sundry Expenses	320	-
Computers	600	-
Bank Balance	520	-
Singapore Office A/c	-	3,040
Total	6,520	6,520

Additional information :

(a) *Computers were acquired from a remittance of Singapore dollar 12,000 received from Singapore Head Office and paid to the suppliers. Depreciate Computers at the rate of 40% for the year.*

(b) *Closing Stock of Delhi branch was ₹ 15,60,000 on 31st March, 2019.*

(c) *The Rates of Exchange may be taken as follows :*

(i) *on 1.4.2018 @ ₹ 50 per Singapore Dollar*

(ii) *on 31.3.2019 @ ₹ 52 per Singapore Dollar*

(iii) *Average Exchange Rate for the year @ ₹ 51 per Singapore Dollar.*

(iv) *Conversion in Singapore Dollar shall be made upto two decimal accuracy.*

(d) *Delhi Branch Account showed a debit balance of Singapore Dollar 59,897.43 on 31.3.2019 in the Head office books and there were no items pending for reconciliation.*

In the books of Head office you are required to prepare :

(1) *Revenue statement for the year ended 31st March, 2019 (in Singapore Dollar)*

(2) *Balance Sheet as on that date. (in Singapore Dollar)* **(8 Marks)**

Answer

(a) Trading and Profit and Loss A/c for the year ended 31.3.2019

		₹			₹
To Opening stock (Balancing figure)		82,500	By Sales- Cash (W.N.1)	1,25,000	
To Purchases-Cash	1,80,000		Credit	5,00,000	6,25,000
Credit (W.N.1)	2,70,000	4,50,000	By Closing stock		32,500
To Gross profit c/d		1,25,000			
		6,57,500			6,57,500
To Loss on sale of Machine		7,500	By Gross profit b/d		1,25,000
To Depreciation			By Discount received		2,250
Land & Building	12,500				
Plant & Machinery	11,875				
Office Equipment	6,375	30,750			
To Expenses paid					
Salary	16,000				
Selling Expenses	7,500				
Office Expenses	18,500	42,000			
To Bed debt		2,250			
To Discount allowed		2,750			
To Interest on loan		6,250			
To Net profit		35,750			
		1,27,250			1,27,250

Balance Sheet as on 31-3-2019

Liabilities		₹	*Assets*		₹
Capital (Balancing Figure)	4,65,250		Land & Building	2,50,000	
Add: Net profit	35,750	5,01,000	*Less:* Depreciation	(12,500)	2,37,500
Sundry creditors (W.N.3)		52,750	Plant & Machinery	1,65,000	
Bank loan		50,000	*Less:* Depreciation	(10,875)	1,54,125
Provision for expenses		7,500	Office Equipment	42,500	

			Less: Depreciation	(6,375)	36,125
			Debtors		1,10,250
			Stock		32,500
			Bank balance (W.N.4)		40,750
		6,11,250			6,11,250

Working Notes:

1. Calculation of Sales and Purchases

Total sales = ₹ 6,25,000

Cash sales = 20% of total sales (6,25,000) = ₹ 1,25,000

Credit sales = 80% of total sales = (6,25,000) ₹ 5,00,000

Gross Profit 25% on cost = 6,25,000 x $\frac{25}{125}$ = ₹1,25,000

Credit purchases = ₹ 2,70,000

Credit purchases = 60% of total purchases

Cash purchases = 40% of total purchases

Total purchases = $\frac{2,70,000}{60} \times 100 =$ ₹ 4,50,000

Cash purchases = 4,50,000 – 2,70,000 = ₹ 1,80,000

2. Plant & Machinery

	₹		₹
To Balance b/d	1,10,000	By Sale of Machinery A/c	20,000
To Cash-purchase (Bal. Fig.)	75,000	By Balance c/d	1,65,000
	1,85,000		1,85,000

Depreciation on Plant & Machinery:

@ 10% p.a. on ₹ 20,000 for 6 months	=	1,000
@ 10% p.a. on ₹ 90,000 (i.e. ₹ 1,10,000 – ₹ 20,000)	=	9,000
@ 10% p.a. on ₹ 75,000 for 3 months (i.e. during the year)	=	1,875
		11,875

Sale of Machinery Account

To Plant and Machinery	20,000	By Depreciation (20,000 x 10% x 1/2	1000
		By Profit and Loss A/c	7,500
		By Bank (Balancing figure)	11,500
	20,000		20,000

3. **Creditors Account**

	₹		₹
To Cash	2,62,500	By Balance b/d	47,500
To Discount received	2,250	By Credit purchases (W.N.2)	2,70,000
To Balance c/d (Bal. Fig.)	52,750		
	3,17,500		3,17,500

Debtors Account

	₹		₹
To Balance b/d (Given)	77,750	By Cash	4,62,500
To Sales (Credit)	5,00,000	By Discount allowed	2,750
		By Bad debts	2,250
		By Balance c/d	1,10,250
	5,77,750		5,77,750

Provision for Office Expenses Account

	₹		₹
To Bank	21,000	By balance b/d	10,000
To balance c/d	7,500	By Expenses. (Bal. fig.)	18,500
	28,500		28,500

4. **Bank Account**

	₹		₹
To Balance b/d	12,500	By Creditors	2,62,500
To Debtors	4,62,500	By Purchases	1,80,000
To Office Equipment (sales)	10,000	By Expenses ₹ (16,000 + 7,500 + 21,000)	44,500
To Cash sales (W.N.1)	1,25,000	By Bank loan paid	18,750

To Machine sold	11,500	By Machine purchased (W.N.4)	75,000
		By Balance c/d (Bal. Fig.)	40,750
	6,21,500		6,21,500

5. **Office Equipment Account**

To balance b/d	52,500	By Sales	10,000
		By balance c/d	42,500
	52,500		52,500

(b) **Revenue Statement**

for the year ended 31st March, 2019

	Singapore dollar		Singapore dollar
To Opening Stock	12,000.00	By Sales	47,058.82
To Purchases	31,372.55	By Closing stock	30,000.00
To Wages	21,960.78	(15,60,000/52)	
To Gross profit b/d	11,725.49		
	77,058.82		77,058.82
To Rent, rates and taxes	14,117.65	By Gross profit c/d	11,725.49
To Sundry Expenses	6,274.51	By Net loss b/d	13,466.67
To Depreciation on computers			
(Singapore dollar 12,000 × 0.4)	4,800.00		
	25,192.16		25,192.16

Balance Sheet of Delhi Branch

as on 31st March, 2019

Liabilities		Singapore dollar	*Assets*	Singapore dollar	Singapore dollar
Singapore Office A/c	59,897.43		Computers	12,000.00	
Less: Net Loss	(13,466.67)	46,430.76	*Less:* Depreciation	(4,800.00)	7,200.00
Sundry creditors		11,538.46	Closing stock		30,000.00
Bills payable		9,230.77	Sundry debtors		15,384.61
			Bank balance		10,000.00
			Bills receivable		4,615.38
		67,199.99			67,199.99

Working Note:

M/s Rani & Co.

Delhi Branch Trial Balance in (Singapore $)

as on 31st March, 2019

			Conversion	Dr.	Cr.
			rate per Singapore dollar	Singapore dollar	Singapore dollar
			(₹)		
Stock on 1.4.18	6,00,000.00		50	12,000.00	–
Purchases and sales	16,00,000.00	24,00,000.00	51	31,372.55	47,058.82
Sundry Debtors and Creditors	8,00,000.00	6,00,000.00	52	15,384.61	11,538.46
Bills of exchange	2,40,000.00	4,80,000.00	52	4,615.38	9,230.77
Wages	11,20,000.00		51	21,960.78	–
Rent, rates and taxes	7,20,000.00		51	14,117.65	–
Sundry Expenses	3,20,000.00		51	6,274.51	–
Computers	6,00,000.00		–	12,000.00	–
Bank balance	5,20,000.00		52	10,000.00	–
Singapore office A/c			–		59,897.43
				1,27,725.48	1,27,725.48

Question 4

The following is the Balance Sheet of M/s Red and Black as on 31st March, 2018:

Liabilities		*(₹)*	*Assets*	*(₹)*
Red's Capital	*80,000*		*Building*	*1,00,000*
Black's Capital	*1,00,000*	*1,80,000*	*Closing Stock*	*60,000*
Red's Loan		*20,000*	*Sundry Debtors*	*40,000*
General Reserve		*20,000*	*Investment*	*40,000*
Sundry Creditors		*40,000*	*(6% Debentures in Cool Ltd.)*	
			Cash	*20,000*
		2,60,000		*2,60,000*

It was agreed that Mr. White is to be admitted for a fifth share in the future profits from 1st April, 2018. He is required to contribute cash towards goodwill and ₹ 20,000 towards capital.

(a) The following further information is furnished:

(i) The partners Red and Black shared the profits in the ratio of 3 : 2.

(ii) Mr. Red was receiving a salary of ₹ 1,000 p.m. from the very inception of the firm in addition to the share of profit.

(iii) The future profit ratio between Red, Black and White will be 3 : 1 : 1. Mr. Red will not get any salary after the admission of Mr. White.

(iv) The goodwill of the firm should be determined on the basis of 2 years' purchase of the average profits from business of the last 5 years. The particulars of profits/losses are as under :

Year Ended	(₹)	Profit/Loss
31.3.2014	40,000	Profit
31.3.2015	20,000	Loss
31.3.2016	40,000	Profit
31.3.2017	50,000	Profit
31.3.2018	60,000	Profit

The above profits and losses are after charging the salary of Mr. Red. The profit of the year ended 31st March, 2014 included an extraneous profit of ₹ 60,000 and the loss for the year ended 31st March, 2015 was on account of loss by strike to the extent of ₹ 40,000.

(v) It was agreed that the value of the goodwill should not appear in the books of the firm.

(b) Trading profit for the year ended 31st March, 2019 was ₹ 80,000 (Before charging depreciation)

(c) Each partner had drawn ₹ 2,000 per month as drawing during the year 2018-19.

(d) On 31st March, 2019 the following balances appeared in the books:

Building (Before Depreciation)	₹ 1,20,000
Closing Stock	₹ 80,000
Sundry Debtors	Nil
Sundry Creditors	Nil
Investment	₹ 40,000

(e) Interest was @ 6% per annum on Red's loan was not paid during the year.

(f) Interest on Debenture was received during the year.

(g) Depreciation is to be provided @ 5% on Closing Balance of Building.

(h) Partners applied for conversion of the firm into a private Limited Company i.e. RBW Private Limited. Certificate received on 1.4.2019.

They decided to convert Capital accounts of the partners into share capital, in the ratio of 3: 1: 1 (on the basis of total Capital as on 31.3.2019). If necessary, partners have to subscribe to fresh capital or withdraw.

You are required to prepare :

(1) Profit & Loss Account for the year ended 31st March, 2019 in the books of M/s Red and Black.

(2) Balance Sheet as on 1st April, 2019 in the books of RBW Private Limited. ***(20 Marks)***

Answer

M/s Red, Black and White

Statement of Profit & Loss for the year ended on 31st March, 2019

	₹		₹
To Depreciation on Building (1,20,000 x 5%)	6,000	By Trading Profit	80,000
To Interest on Red's loan (20,000 x 6%)	1,200	By Interest on Debentures	2,400
To Net Profit to :			
Red's Capital A/c	45,120		
Black's Capital A/c	15,040		
White's Capital A/c	15,040		
	82,400		82,400

Balance Sheet of the RBW Pvt. Ltd. as on 1-4-2019

		Notes No.	₹
I	**Equity and Liabilities**		
	Shareholders funds		2,39,040
	Non-current liabilities		
	Long term borrowings	1	21,200
	Total		2,60,240
II	**Assets**		
	Non-current assets		
	Property, Plant & Equipment		
	Tangible assets	2	1,14,000
	Non-current investments		40,000
	Current assets		
	Inventories		80,000
	Cash and cash equivalents		26,240
	Total		2,60,240

Notes to Accounts

		₹
1.	Borrowings	
	Loan from Red	21,200
2.	Tangible assets	
	Land and Building ₹ (1,20,000 – 6,000)	1,14,000

Working Notes:

1. **Calculation of goodwill**

Year ended March, 31

	2014 ₹	*2015* ₹	*2016* ₹	*2017* ₹	*2018* ₹
Book Profits	40,000	(20,000)	40,000	50,000	60,000
Adjustment for extraneous profit of 2014 and abnormal loss for 2015	(60,000)	40,000	—	—	—
	(20,000)	20,000	40,000	50,000	60,000
Add Back: Remuneration of Red	12,000	12,000	12,000	12,000	12,000
	(8,000)	32,000	52,000	62,000	72,000
Less: Debenture Interest being non-operating income	(2,400)	(2,400)	(2,400)	(2,400)	(2,400)
	(10,400)	29,600	49,600	59,600	69,600
Total Profit from 2015 to 2018					2,08,400
Less: Loss for 2014					(10,400)
Accumulated Profit					1,98,000
Average Profit					39,600
Goodwill equal to 2 years' purchase					79,200
Contribution from White, equal to 1/5					15,840

2. **Partners' Capital Accounts**

	Red ₹	*Black* ₹	*White* ₹		*Red* ₹	*Black* ₹	*White* ₹
To Drawings	24,000	24,000	24,000	By Balance b/d	80,000	1,00,000	—
To Black A/c			15,840	By General Reserve	12,000	8,000	—
To Balance c/d	1,13,120	1,14,880	11,040				

				By White A/c		15,840	—
				By Bank A/c	—	—	35,840
				By Profit & Loss A/c	45,120	15,040	15,040
	1,37,120	1,38,880	50,880		1,37,120	1,38,880	50,880

3. **Balance Sheet as on 31st March, 2019**

Liabilities	₹	₹	*Assets*	₹	₹
Red's Capital		1,13,120	Land & Building	1,20,000	
Black's Capital		1,14,880	*Less*: Depreciation	(6,000)	1,14,000
White's Capital		11,040	Investments		40,000
Red's Loan	20,000		Stock-in-trade		80,000
Add: Interest due	1,200	21,200	Cash (Balancing figure)		26,240*
		2,60,240			2,60,240

4. **Conversion into Company**

		₹
Capital:	Red	1,13,120
	Black	1,14,880
	White	11,040
Share Capital		2,39,040
Distribution of share:	Red (3/5)	1,43,424
	Black (1/5)	47,808
	White (1/5)	47,808

Red should subscribe shares of ₹ 30,304 (₹ 1,43,424 – ₹ 1,13,120) and White should subscribe shares of ₹ 36,768 (₹ 47,808 less 11,040). Black withdraws ₹ 67,072 (₹ 47,808 – ₹ 1,14,880).

5 **Adjustment for Goodwill**

	To be raised in old Raio	To be written off in new ratio	Difference
Red	47,520	47,520	Nil
Black	31,680	15,840	15,840 Cr.
White		15,840	15,840 Dr.

6. Closing cash balance* can also be derived as shown below:

	₹	₹
Trading profit (assume realised)		80,000
Add: Debenture Interest		2,400
Add: Decrease in Debtors Balance		40,000
		1,22,400
Less: Increase in stock	20,000	
Less: Decrease in creditors	40,000	(60,000)
Cash Profit		62,400
Add: Opening cash balance		20,000
Add: Cash brought in by White		35,840
		1,18,240
Less: Drawings	72,000	
Less: Additions to Building	20,000	(92,000)
		26,240

Question 5

(a) The Summarized Balance Sheet of Clean Ltd. as on 31st March, 2019 is as follows:

Particulars	*(₹)*
EQUITY AND LIABILITIES	
1. Shareholder's funds:	
(a) Share Capital	*5,80,000*
(b) Reserves and Surplus	*96,000*
2. Current Liabilities:	
Trade Payables	*1,13,000*
Total	*7,89,000*
ASSETS:	
1. Non-Current Assets	
(a) Property, Plant and Equipment	
Tangible Assets	*6,90,000*
(b) Non-current investments	*37,000*
2. Current Assets	
Cash and cash equivalents (Bank)	*62,000*
Total	*7,89,000*

The Share Capital of the company consists of ₹ 50 each Equity shares of ₹ 4,50,000 and ₹ 100 each 8% Redeemable Preference Shares of ₹ 1,30,000 (issued on 1.4.2017).

Reserves and Surplus comprises statement of profit and loss only.

In order to facilitate the redemption of preference shares at a premium of 10%, the Company decided:

(a) to sell all the investments for ₹ 30,000.

(b) to finance part of redemption from company funds, subject to, leaving a Bank balance of ₹ 24,000.

(c) to issue minimum equity share of ₹ 50 each at a premium of ₹ 10 per share to raise the balance of funds required.

You are required to

(1) Pass Journal Entries to record the above transactions.

(2) Prepare Balance Sheet after completion of the above transactions.

(b) The following information was provided by PQR Ltd. for the year ended 31st March, 2019 :

(1) Gross Profit Ratio was 25% for the year, which amounts to ₹ 3,75,000.

(2) Company sold goods for cash only.

(3) Opening inventory was lesser than closing inventory by ₹ 25,000.

(4) Wages paid during the year ₹ 5,55,000.

(5) Office expenses paid during the year ₹ 35,000.

(6) Selling expenses paid during the year ₹ 15,000.

(7) Dividend paid during the year ₹ 40,000 (including dividend distribution tax).

(8) Bank Loan repaid during the year ₹ 2,05,000 (included interest ₹ 5,000)

(9) Trade Payables on 31st March, 2018 were ₹ 50,000 and on 31st March, 2019 were ₹ 35,000.

(10) Amount paid to Trade payables during the year ₹ 6,10,000

(11) Income Tax paid during the year amounts to ₹ 55,000

(Provision for taxation as on 31st March, 2019 ₹ 30,000)·

(12) Investments of ₹ 8,20,000 sold during the year at a profit of ₹ 20,000.

(13) Depreciation on furniture amounts to ₹ 40,000.

(14) Depreciation on other tangible assets amounts to ₹ 20,000.

(15) Plant and Machinery purchased on 15th November, 2018 for ₹ 3,50,000.

(16) *On 31st March, 2019 ₹ 2,00,000, 7% Debentures were issued at face value in an exchange for a plant.*

(17) *Cash and Cash equivalents on 31st March, 2018 ₹ 2,25,000.*

(A) *Prepare cash flow statement for the year ended 31st March, 2019, using direct method.*

(B) *Calculate cash flow from operating activities, using indirect method.* ***(10 + 10 = 20 Marks)***

Answer

(a) **Journal Entries**

	Particulars		Dr. (₹)	Cr. (₹)
1	Bank A/c	Dr.	75,000	
	To Share Application A/c			75,000
	(For application money received on 1,250 shares @ ₹ 60 per share)			
2	Share Application A/c	Dr.	75,000	
	To Equity Share Capital A/c			62,500
	To Securities Premium A/c			12,500
	(For disposition of application money received)			
3	Preference Share Capital A/c	Dr.	1,30,000	
	Premium on Redemption of Preference Shares A/c	Dr.	13,000	
	To Preference Shareholders A/c			1,43,000
	(For amount payable on redemption of preference shares)			
4	Profit and Loss A/c	Dr.	13,000	
	To Premium on Redemption of Preference Shares A/c			13,000
	(For writing off premium on redemption out of profits)			
5	Bank A/c	Dr.	30,000	
	Profit and Loss A/c (loss on sale) A/c	Dr.	7,000	
	To Investment A/c			37,000
	(For sale of investments at a loss of ₹ 3,500)			
6	Preference Shareholders A/c	Dr.	1,43,000	
	To Bank			1,43,000
	(Being amount paid to Preference shareholders)			

7	Profit and Loss A/c	Dr.	67,500	
	To Capital Redemption Reserve A/c			67,500
	(For transfer to CRR out of divisible profits an amount equivalent to excess of nominal value of preference shares over proceeds (face value of equity shares) i.e., ₹ 1,30,000 - ₹ 62,500)			

Balance Sheet of Clean Ltd. (after redemption)

	Particulars	Notes No.	₹
	EQUITY AND LIABILITIES		
1.	**Shareholders' funds**		
	a) Share capital	1	5,12,500
	b) Reserves and Surplus	2	88,500
2.	Current liabilities		
	Trade Payables		1,13,000
	Total		7,14,000
	ASSETS		
1.	Non-Current Assets		
	Property Plant and Equipments		
	Tangible asset		6,90,000
2.	Current Assets		
	Cash and cash equivalents (bank)	3	24,000
	Total		7,14,000

Notes to accounts

		₹
1.	Share Capital	
	Equity share capital ₹ (4,50,000 + 62,500)	5,12,500
2.	Reserves and Surplus	
	Capital Redemption Reserve	67,500
	Profit and Loss Account ₹ (96,000 – 13,000 – 7,000 – 67,500)	8,500
	Security Premium	12,500
		88,500
3.	Cash and cash equivalents	
	Balances with banks ₹ (62,000 + 75,000 +30,000 – 1,43,000)	24,000

Working Note:

Calculation of Number of Shares:		₹
Amount payable on redemption (1,30,000 + 10% Premium)		1,43,000
Less: Sale price of investment		(30,000)
		1,13,000
Less: Available bank balance (62,000 - 24,000)		(38,000)
Funds required from fresh issue		75,000
No. of shares = 75,000/60	=	1,250 shares

(b) (i) PQR Ltd.

Cash Flow Statement for the year ended 31st March, 2019

(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)	(12,15,000)
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 used in investing activities (B)		4,90,000
Cash flows from financing activities		
Bank loan repayment (including interest)	(2,05,000)	
Dividend paid (including dividend distribution tax)	(40,000)	
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 operations 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

Question 6

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

(a) *Write short note on Timing difference and Permanent Difference as per AS 22.*

(b) *Summarised Balance Sheet of Cloth Trader as on 31.03.2017 is given below:*

Liabilities	*Amount (₹)*	*Assets*	*Amount (₹)*
Proprietor's Capital	*3,00,000*	*Fixed Assets*	*3,60,000*
Profit & Loss Account	*1,25,000*	*Closing Stock*	*1,50,000*
10% Loan Account	*2,10,000*	*Sundry Debtors*	*1,00,000*

Sundry Creditors	*50,000*	*Deferred Expenses*	*50,000*
		Cash & Bank	*25,000*
	6,85,000		*6,85,000*

Additional Information is as follows :

(1) The remaining life of fixed assets is 8 years. The pattern of use of the asset is even. The net realisable value of fixed assets on 31.03.2018 was ₹ 3,25,000.

(2) Purchases and Sales in 2017-18 amounted to ₹ 22,50,000 and ₹ 27,50,000 respectively.

(3) The cost and net realizable value of stock on 31.03.2018 were ₹ 2,00,000 and ₹ 2,50,000 respectively.

(4) Expenses for the year amounted to ₹ 78,000.

(5) Deferred Expenses are amortized equally over 5 years.

(6) Sundry Debtors on 31.03.2018 are ₹ 1,50,000 of which ₹ 5,000 is doubtful. Collection of another ₹ 25,000 depends on successful re-installation of certain product supplied to the customer;

(7) Closing Sundry Creditors are ₹ 75,000, likely to be settled at 10% discount.

(8) Cash balance as on 31.03.2018 is ₹ 4,22,000.

(9) There is an early repayment penalty for the loan of ₹ 25,000.

You are required to prepare: (Not assuming going concern)

(1) Profit & Loss Account for the year 2017-18.

(2) Balance Sheet as on 31st March, 2018.

(c) Tarun Ltd. was incorporated on 1st July, 2018 to acquire a running business of Vinay Sons with effect from 1st April, 2018. During the year 2018-19, the total sales were ₹ 12,00,000 of which ₹ 2,40,000 were for the first six months. The Gross Profit for the year is ₹ 4,15,000. The expenses debited to the Profit and Loss account included:

(i) Director's fees ₹ 25,000

(ii) Bad Debts ₹ 6,500

(iii) Advertising ₹ 18,000 (under a contract amounting to ₹ 1,500 per month)

(iv) Company Audit Fees ₹ 15,000

(v) Tax Audit Fees ₹ 10,000

(1) Prepare a statement showing pre-incorporation and post incorporation profit for the year ended 31st March, 2019.

(2) Explain how profits are to be treated.

(d) State the circumstances when Garner V/s Murray rule is not applicable.

(e) Wooden Plywood Limited has a normal wastage of 5% in the production process. During the year 2017-18, the Company used 16,000 MT of Raw material costing ₹ 190 per MT. At the end of the year, 950 MT of wastage was in stock. The accountant wants to know how this wastage is to be treated in the books.

You are required to :

(1) Calculate the amount of abnormal loss.

(2) Explain the treatment of normal loss and abnormal loss. [In the context of AS-2 (Revised)] ***(4 Parts x 5 Marks = 20 Marks)***

Answer

(a) Matching of taxes against revenue for a period poses special problems arising from the fact that in number of cases, taxable income may be different from the accounting income. The divergence between taxable income may be different from the accounting income arises due to two main reasons: Firstly, there are differences between items of revenue and expenses as appearing in the statement of profit and loss and the items which are considered as revenue, expenses or deductions for tax purposes, known as Permanent Difference. Secondly, there are differences between the amount in respect of a particular item of revenue or expense as recognised in the statement of profit and loss and the corresponding amount which is recognised for the computation of taxable income, known as Timing Difference.

Permanent differences are the differences between taxable income and accounting income which arise in one accounting period and do not reverse subsequently. For example, an income exempt from tax or an expense that is not allowable as a deduction for tax purposes.

Timing differences are those differences between taxable income and accounting income which arise in one accounting period and are capable of reversal in one or more subsequent periods. For e.g., Depreciation, Bonus, etc.

(b) Profit and Loss Account for the year ended 2017-18(not assuming going concern)

Particulars	Amount	Particulars	Amount
	₹		₹
To Opening Stock	1,50,000	By Sales	27,50,000
To Purchases	22,50,000	By Closing Stock	2,50,000
To Expenses*	78,000	By Trade payables	7,500
To Depreciation	35,000		
To Provision for doubtful debts	30,000		
To Deferred cost	50,000		
To Loan penalty	25,000		

To Net Profit (b.f.)	3,89,500		
	30,07,500		30,07,500

Balance Sheet as at 31st March, 2018 (not assuming going concern)

Liabilities	*Amount* ₹	*Assets*	*Amount* ₹
Capital	3,00,000	Fixed Assets	3,25,000
Profit & Loss A/c	5,14,500	Stock	2,50,000
10% Loan	2,35,000	Trade receivables (less provision)	1,20,000
Trade payables	67,500	Deferred costs	Nil
		Bank	4,22,000
	11,17,000		11,17,000

*Assumed that ₹ 78,000 includes interest on 10% loan amount for the year.

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

For the year ended 31st March, 2019

Particulars	*Total Amount*	*Basis of Allocation*	*Pre-incorporation*	*Post-incorporation*
Gross Profit	4,15,000	Sales (1:9)	41,500	3,73,500
Less: Directors' fee	25,000	Post		25,000
Bad debts	6,500	Sales (1:9)	650	5,850
Advertising	18,000	Time (1:3)	4,500	13,500
Company Audit Fees	15,000	Post		15,000
Tax Audit Fee	10,000	Sales (1:9)	1,000	9,000
Net Profit	3,40,500		35,350	3,05,150

Pre-incorporation profits to be transferred to capital reserve and post-incorporation profit to be transferred to profit & Loss A/c.

Working Notes:

(i) Sales ratio

Particulars	₹
Sales for period up to 30.06.2018 (2,40,000 x 3/6)	1,20,000
Sales for period from 01.07.2018 to 31.03.2019 (12,00,000 – 1,20,000)	10,80,000

Thus, Sales Ratio = 1 : 9 (1,20,000 : 10,80,000)

(ii) Time ratio

1st April, 2018 to 30 June, 2018: 1st July, 2018 to 31st March, 2019

= 3 months: 9 months = 1: 3

Thus, Time Ratio is 1: 3

(d) Garner vs Murray rule is non-applicable in the following cases:

1. When the solvent partner has a debit balance in the capital account.

   Only solvent partners will bear the loss of capital deficiency of insolvent partner in their capital ratio. If incidentally a solvent partner has a debit balance in his capital account, he will escape the liability to bear the loss due to insolvency of another partner.
2. When the firm has only two partners.
3. When there is an agreement between the partners to share the deficiency in capital account of insolvent partner.
4. When all the partners of the firm are insolvent.

(e) (i) As per AS 2 (Revised) 'Valuation of Inventories', abnormal amounts of wasted materials, labour and other production costs are excluded from cost of inventories and such costs are recognised as expenses in the period in which they are incurred. The normal loss will be included in determining the cost of inventories (finished goods) at the year end.

Amount of Abnormal Loss:

(ii) Material used 16,000 MT @ ₹ 190 = ₹ 30,40,000

Normal Loss (5% of 16,000 MT) 800 MT (included in calculation of cost of inventories)

Net quantity of material 15,200 MT

(iii) Abnormal Loss in quantity (950 - 800) 150 MT

Abnormal Loss ₹ 30,000

[150 units @ ₹ 200 (₹ 30,40,000/15,200)]

Amount of ₹ 30,000 (Abnormal loss) will be charged to the Profit and Loss statement.