

* Whenever debentures are purchased interest will be compulsarily paid for the period accrued. L11

* Whenever debentures are sold interest will be compulsarily received for the period accrued.

b. What is cum-interest and ex-interest price L12

Cum-interest price $\begin{cases} \rightarrow \text{Debentures cost} \\ \rightarrow + \text{Interest} \end{cases}$ } both are included.

Interest is paid on purchase but it is not shown separately

Ex-interest price $\rightarrow$ Debentures cost $\rightarrow$ only this is included.

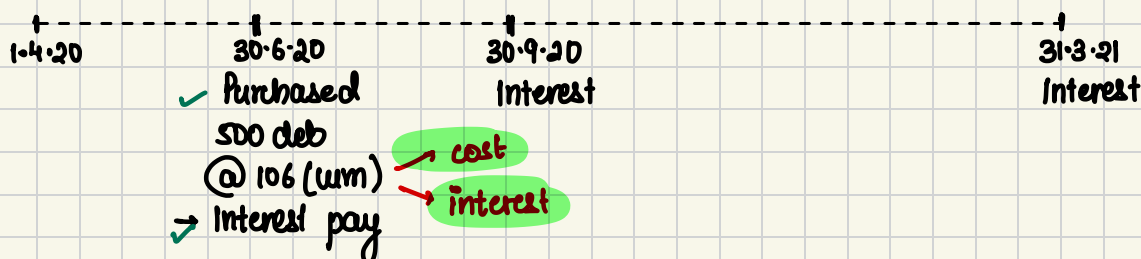
Interest is paid on purchase and it is also shown separately.

Example :- Mintu purchased 500 debentures of Mishri Ltd. as on 30.6.20. Mishri Ltd. pays interest on the debentures on 30.9. and 31.3 every year. Cost of debentures is : CASE I - 106 (cum-interest)
CASE II - 106 (ex-interest)

Interest Rate = 10%.

Pass journal entries for purchase of debentures.

Solution :- CASE I :-



Journal Entry

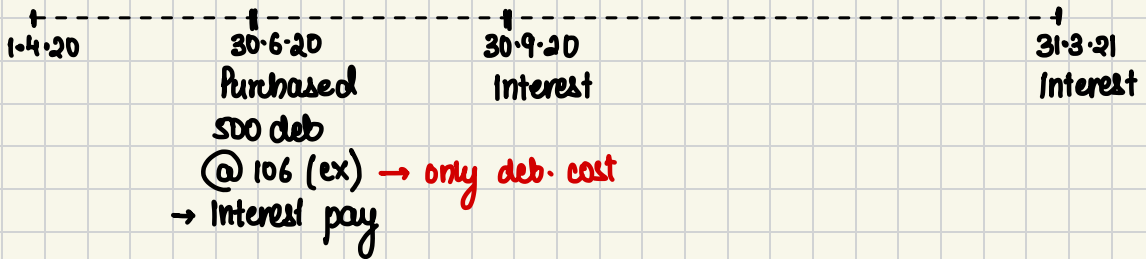
30.6.20	:	Investment in Debentures	Dr.	51750	$\rightarrow$ <u>COST</u> (ex-int.)
		To, Bank a/c		51750	
		(Being debentures purchased)			
		Interest on debentures	Dr.	1250	
		To, Bank a/c		1250	
		(Interest on debentures)			

W/N :- Calculation of Ex-interest cost

1. Cum-interest cost $\therefore 500 \times 106 = 53000$
2. less: interest $= 500 \times 100 \times 10/100 \times 3/12 = \underline{(1250)}$
3. Ex-interest cost $= \underline{\underline{51750}}$

CASE II :- 106 ex-interest

L12



JOURNAL ENTRY

30-6-20	Investment in Debentures a/c To, Bank	Dr.	53000 53000
	Interest on Debentures a/c To, Bank (500 × 100 × 10/100 × 3/12)	Dr.	1250 1250

Example :- Nitish made the following purchase of debentures of Nita Ltd. :

L12

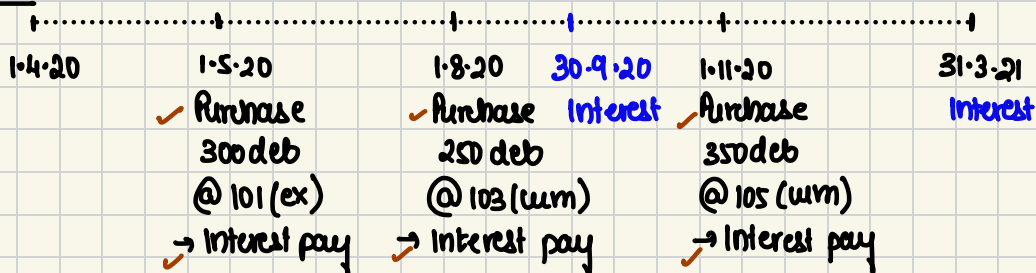
- 1-5-20 :- Purchased 300 deb @ ₹ 101 (ex-int).
- 1-8-20 :- Purchased 250 deb @ ₹ 103 (cum-int.)
- 1-11-20 :- Purchased 350 deb @ ₹ 105 (cum-int.)

9:07am

Interest is paid by Nita Ltd. on every 30-9 and 31-3.
Interest Rate = 11% ; FV = 100

Pass Journal Entries for the above purchases.

Solution :-



Journal Entry

1-5-20	Investment in Debentures a/c To, Bank	Dr.	30300 30300
1-5-20	Interest on Debentures a/c To, Bank (300 × 100 × 11/100 × 1/12)	Dr.	275 275
1-8-20	Investment in Debentures a/c To, Bank a/c	Dr.	24833 24833

1-8-20	Interest on Debentures To, Bank	Dr. 917 917
30-9-20	Bank (550 x 100 x 11% x 6/12) To, Interest on debentures	Dr. 3025 3025
1-11-20	Investment in Debentures To, Bank	Dr. 36429 36429
1-11-20	Interest on Debentures To, Bank	Dr. 321 321
31-3-20	Bank To, Interest on debentures	Dr. 4950 4950

W/N :- Calculation of ex-interest cost

1-8-20 :-	1. Cum. interest cost : $250 \times 103 =$	25750
	2. less: Interest : $(250 \times 100 \times 11\% \times 4/12) =$	917
	3. Ex-interest cost	<u>24833</u>
1-11-20	1. Cum. interest cost : $350 \times 105 =$	36750
	2. less: Interest : $(350 \times 100 \times 11\% \times 1/12) =$	321
	3. Ex-interest cost	<u>36429</u>

⇒ Calculation of profit/loss on sale of debentures

$$C = 105 \text{ (cum/ex)} \quad SP = 110 \text{ (cum/ex)}$$

$$\underbrace{\hspace{10em}}_{P=5}$$

$$\downarrow$$

P&L Cr.

$$C = 105 \text{ (cum/ex)} \quad SP = 103 \text{ (cum/ex)}$$

$$\underbrace{\hspace{10em}}_{L=2}$$

$$\downarrow$$

P&L Dr.

$$C = 105 \text{ (cum)} \quad SP = 110 \text{ (cum)}$$

$$\swarrow \quad \searrow \quad \swarrow \quad \searrow$$

$$C \quad \text{1.} \quad C \quad \text{1.}$$

$$C = \text{ex-int} \quad SP = \text{ex-int}$$

$$\underbrace{\hspace{10em}}_{P/L = \text{P&L Cr./Dr.}}$$

Example :-

Purchased 500 deb @ ₹ 101 (cum-int) on 30-6-20

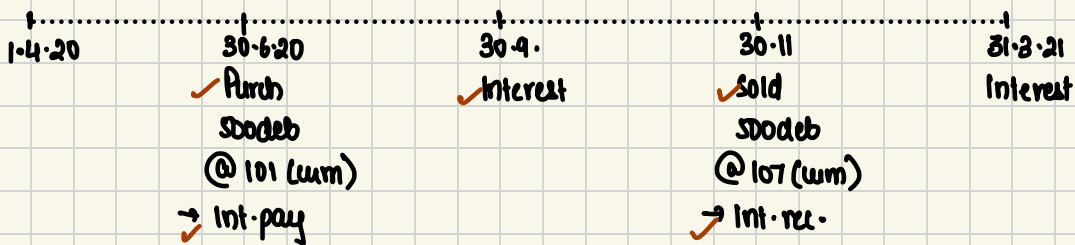
Sold 500 deb @ ₹ 107 (cum-int) on 30-11-20

Interest is paid by the company on 30-9 and 31-3 every year.

Calculate profit/loss on sale and pass necessary Journal Entries.

Interest Rate = 9% ; FV = 100.

LW



30-6-20 Investment in Debentures Dr. 49375
To Bank 49375

30-6-20 Interest on Debentures Dr. 1125
To Bank 1125

30-9-20 Bank Dr. 2250
To Interest on Debentures 2250
(500 x 100 x 9% x 3/12)

30-11-20 Bank Dr. 52750
To Investment in debentures 49375
To P&L 3375

30-11-20 Bank Dr. 750
To Interest on debentures 750

W/N-1: Calculation of cost of purchase

30-6-20 :-

1. Cum-Interest cost :- $500 \times 101 = 50500$
2. less: Interest ($500 \times 100 \times 9\% \times 3/12$) = 1125
3. Ex-interest cost = 49375

W/N-2: Calculation of profit/loss on sale of debentures

30-11-20 :-

1. Cum-Interest selling price : $500 \times 107 = 53500$
2. less: Interest ($500 \times 100 \times 9\% \times 2/12$) = 750
3. Ex-interest selling price = 52750
4. less: Ex-interest cost = 49375
5. Profit on sale = 3375

10:05am
Test Start

TEST 1



ADVANCED ACCOUNTING

Chapter: AS 2, AS 10, AS 16

Solving time: 40 mins

Total Marks: 20

NOTE: All Questions are Compulsory.

Solving Time
until 10:30am

Question 1:

Wooden Plywood Limited has a normal wastage of 5% in the production process. During the year 2023-24, 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. **(5 Marks)**

Question 2:

A company has debited the Building Account with the Cost of the Land on which the building stands and has provided depreciation on such total cost. Comment on the accounting treatment. **(5 Marks)**

Question 3:

H Ltd. began the construction of a new building on 1st April 2022. It obtained a special loan of ₹ 6,00,000 on 1st April 2022 at an interest of 12% to finance the construction of the building.

The company's other outstanding two non-specific loans on 1st April, 2022 were as follows:

Amount in ₹	Rate of Interest
30,00,000	14%
54,00,000	16%

The expenditure incurred on the building project was as per detail given below:

	Amount in ₹
1 st May, 2022	12,00,000
1 st July, 2022	15,00,000
1 st October, 2022	27,00,000
1 st March, 2023	7,20,000

The building was completed by 31st March 2023.

Calculate the borrowing costs to be capitalised.

(10 Marks)

TEST 1: ANSWERS



ADVANCED ACCOUNTING

Chapter: AS 2, AS 10, AS 16

Solving time: 40 mins

Total Marks: 20

NOTE: All Questions are Compulsory.

Question 1:

MTP 2 MAY 24

Wooden Plywood Limited has a normal wastage of 5% in the production process. During the year 2023-24, 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.

$$\begin{array}{r} 16000 \\ \times 190 \\ \hline 3040000 \end{array}$$

$$NL \quad 800 \times 190 = 152000$$

$$EU = 15200$$

$$EU/U = 200/u$$

$$ANL = 150 \times 200 = 30000$$

$$\begin{array}{r} 15200 \\ \times 10 \\ \hline 152000 \end{array}$$

(5 Marks)

Answer:

- As per AS 2 'Valuation of Inventories', abnormal amounts of wasted materials, labour and other production costs are excluded from cost of inventories and such costs are recognized 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.
- | | |
|--------------------------|---|
| 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 |
- | | |
|---------------------------|---|
| 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.

Question 2:

A company has debited the Building Account with the Cost of the Land on which the building stands and has provided depreciation on such total cost. Comment on the accounting treatment.

$$\begin{array}{r} 11000000 \\ \uparrow \\ 11000000 \end{array}$$

$$\begin{array}{r} 10000000 \\ \uparrow \\ 10000000 \end{array}$$

$$\begin{array}{r} 1000000 \\ \uparrow \\ 1000000 \end{array}$$

Calculation of effective cost/unit (including normal loss)

1. Total cost incurred = $16000 \times 190 = 3040000$
2. Effective units = $16000 - (16000 \times 5\%) = 15200$
3. Effective cost/unit = $\frac{3040000}{15200} = ₹ 200/\text{unit}$

If we observe total normal loss = $800 \times 190 = 152000$

Increase in cost/unit = $200 - 190 = ₹ 10/u$

Effective units = $\frac{152000}{10} = 15200$

Normal loss included in effective units = 152000

Hence entire amount of normal loss is included in cost of inventory.

Answer:

As per AS-10: Property, Plant & Equipment, a PPE having 2 or more significant components with different useful lives should be recognized separately and also should be depreciated separately.

In the given case, both building and land are significant components and also have separate useful lives. Their recognition should be done separately and both should be depreciated separately. Combined recognition and writing off of depreciation will not give a true and fair view of the state of affairs of the company. As land is a non depreciable asset, no depreciation should be charged on the same. The company should assess the useful life of the building and charge depreciation on it accordingly.

The current accounting treatment adopted by the company is incorrect and not in line with AS-10: PPE.

Question 3:

H Ltd. began the construction of a new building on 1st April 2022. It obtained a special loan of ₹ 6,00,000 on 1st April 2022 at an interest of 12% to finance the construction of the building.

The company's other outstanding two non-specific loans on 1st April, 2022 were as follows:

Amount in ₹	Rate of Interest
30,00,000	14% = 420000
54,00,000	16% = 864000
<u>8400000</u>	<u>1284000</u> ✓

The expenditure incurred on the building project was as per detail given below:

	Amount in ₹
1 st May, 2022	12,00,000
1 st July, 2022	15,00,000
1 st October, 2022	27,00,000
1 st March, 2023	7,20,000

The building was completed by 31st March 2023. 6120000

Expenditure on CA × Interest

↓
12m

$$\begin{array}{rcl} 1200000 \times 11/12 & = & 1100000 \\ + & & \\ 1500000 \times 9/12 & = & 1125000 \\ + & & \\ 2700000 \times 6/12 & = & 1350000 \\ + & & \\ 720000 \times 1/12 & = & 60000 \\ \hline & & 3635000 \\ & \uparrow & \\ & 12m & \end{array}$$

$$\text{Expenditure} \times \text{Interest} \\ = 3635000$$

$$\text{S.I.} = 600,000 \times 12\% (\text{S.I.R}) = 72000$$

$$\text{G.I.} = 3035000 \times 15.29\% (\text{W.A.I.R.}) = \frac{464052}{536052} \checkmark$$

$$\underline{\underline{\text{W.A.I.R}}} = \frac{\text{Total Interest}}{\text{Total Borrowings}} = \frac{1284000}{8400000} = 15.29\%$$

$$\underline{\underline{\text{Pr. Pr.}}} \quad 1284000 - 464052 = \underline{\underline{819948/-}}$$



Answer:

Interest amount to be capitalized

		₹
Specific borrowings (₹ 6,00,000 x 12%)	=	72,000
Non-specific borrowings [₹ 30,35,000 (₹ 36,35,000 – ₹ 6,00,000) x 15.29%*]	=	<u>4,64,052</u>
Amount of interest to be capitalized	=	<u>5,36,052</u>

JOURNAL ENTRY

Date	Particulars		Dr. (₹)	Cr. (₹)
31.3.2023	Building account (Cost of building ₹ 61,20,000 + borrowing cost ₹ 5,36,052) To Bank account (Being amount of cost of building and borrowing cost thereon capitalized)	Dr.	66,56,052	66,56,052

Working notes:

(i) Computation of average accumulated expenses

		₹
₹ 12,00,000 x 11 / 12	=	11,00,000
₹ 15,00,000 x 9 / 12	=	11,25,000
₹ 27,00,000 x 6 / 12	=	13,50,000
₹ 7,20,000 x 1 / 12	=	<u>60,000</u>
<u>61,20,000</u>		<u>36,35,000</u>

Calculation of average interest rate other than for specific borrowings

Amount of loan (₹)	Rate of interest		Amount of interest (₹)
30,00,000	14%	=	4,20,000
<u>54,00,000</u>	16%	=	<u>8,64,000</u>
<u>84,00,000</u>			<u>12,84,000</u>
Weighted average rate of interest $\left(\frac{12,84,000}{84,00,000} \times 100 \right)$		=	<u>15.29%*</u> (Rounded off)