SUGGESTED SOLUTION

IPCC NOVEMBER 2017 EXAM

ACCOUNTING

Test Code - I N J 1 0 1 3

BRANCH - (MUMBAI) (Date : 28.05.2017)

Head Office : Shraddha, 3rd Floor, Near Chinai College, Andheri (E), Mumbai – 69.

Tel : (022) 26836666

Answer-1 :

Ring Ltd.

Profit and Loss Statement for the year ended 31st March, 2015

	Particulars	Note No.	(Rs. In lacs)
I	**Revenue from operations**		**10,40,000**
II	**Other income**		**24,000**
III	**Total Revenue [I + II]**		**10,64,000**
IV	**Expenses:**		
	Cost of purchase [4,20,000+ 1,60,000]		5,80,000
	Changes in inventories [20,000-1,80,000]		(1,60,000)
	Employee Benefits Expense		1,20,000
	Finance Costs		56,000
	Depreciation and Amortization Expenses		40,000
	Other Expenses	8	1,24,000
	Total Expenses		7,60,000
V	**Profit before Tax (III-IV)**		**3,04,000**
VI	**Tax Expenses @ 30%**		**(91,200)**
VII	**Profit for the period**		**2,12,800**

(3 Marks)

Balance Sheet of Ring Ltd. as at 31ST March, 2015

Particulars				Note No.	Rs.
I	**EQUITY AND LIABILITIES**				
	(1)	**Shareholders' Funds**			
		(a)	Share Capital	1	4,00,000
		(b)	Reserves and Surplus	2	2,22,442
	(2)	**Non-Current Liabilities**			
		(a)	Long-term Borrowings (Debentures)		4,00,000
	(3)	**Current Liabilities**			
		(a)	Trade Payable (Sundry Creditors)		1,84,000
		(b)	Other Current Liabilities	3	42,000
		(c)	Short-Term Provisions	4	2,11,558
			Total		**14,60,000**
II	**ASSETS**				
	(1)	**Non-Current Assets**			
		(a)	Fixed Assets		
			(i) Tangible Assets	5	5,70,000
		(b)	Non-current Investments		2,40,000
	(2)	**Current Assets**			
		(a)	Inventories	6	2,26,000
		(b)	Trade Receivables	7	2,40,000
		(c)	Cash and Cash equivalents		60,000
		(d)	Short Term Loans and Advances (Advance Payment of Tax)		1,20,000
		(e)	Other Current Assets (Interest accrued on investments)		4,000
			Total		**14,60,000**

(4 Marks)

Note: There is a Contingent Liability for bills discounted but not yet matured amounting Rs. 20,000.

Notes to Accounts:

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1. Share Capital

Authorized Capital		
10,000 Equity Shares of Rs. 100 each		10,00,000
Issued Capital		
4,000 Equity Shares of Rs. 100 each		4,00,000
Subscribed Capital and fully paid		
4,000 Equity Shares of Rs. 100 each		4,00,000
		4,00,000
		(1 Mark)

2. Reserve and Surplus

General Reserv e [Rs. 80,000 + Rs. 21,280]		1,01,280
Balance of Statement of Profit & Loss Account		
Opening Balance	50,000	
Add: Profit for the period	2,12,800	
	2,62,800	
Appropriations		
Transfer to General Reserve @ 10%	(21,280)	
Proposed Equity Divided [25% of Rs. 4,00,000]	(1,00,000)	
Dividend Distribution Tax (W. N.1)	(20,358)	1,21,162
		2,22,442
		(1 Mark)

3. Other Current Liabilities

Unclaimed Dividend		10,000
Outstanding Expenses		4,000
Interest accrued on Debentures		28,000
		42,000
		(1 Mark)

4. Short-Term Provision

Provision f or Tax		91,200
Proposed Equity Dividend		1,00,000
Dividend Distribution Tax		20,358
		2,11,558
		(1 Mark)

5. Tangible Assets

Buildings	5,80,000	
Less: Provision for Depreciation	1,00,000	4,80,000
Plant and Equipment	2,00,000	
Less: Provision for Depreciation	1,10,000	90,000
		5,70,000
		(1 Mark)

6. Inventories

Closing Stock of Finished Goods	1,80,000	
Loose Tools	46,000	2,26,000
		(0.5 Mark)

7. Trade Receivables

Sundry Debtors	2,50,000	
Less: Provision for Doubtful Debts	(10,000)	2,40,000
		(0.5 Mark)

8. Other Expenses

Rent		52,000
Miscellaneous Expenses		36,000
Directors' Fees		20,000
Bad Debts		12,000
Provision for Doubtful Debts (4% of Rs. 2,50,000 less Rs. 6,000)		4,000
		1,24,000
		(1 Mark)

Working Note
Calculation of Dividend distribution tax

Particulars		**Rs.**
(i)	Grossing-up of dividend	
	Dividend distributed by Ring Ltd. 25% of 4,00,000	1,00,000
	Add: Increase for the purpose of grossing up of dividend [1,00,000 x (15/(100-15)]	17,647
	Gross dividend	1,17,647
(ii)	Dividend distribution tax @ 17.304% of Rs. 1,17,647	20,358

(1 Mark)

Answer-2 :

			Rs,				**Rs.**
01.04.2010 31.03.2011	To Balance b/d To General Ledger adjustment A/c. in sales ledger : Credit Sales Cash paid Bills receivable dishonoured To Balance c/d	 7,28,000 1,840 6,000	1,41,880 7,35,840 13,720	01.04.2010 31.03.2011	By Balance b/d By General ledger adjustment A/c. in Sales ledger : Cash Discount allowed Transfer to bought ledger Bills receivable received Sales return By Balance c/d	 6,24,000 11,200 20,800 40,000 10,000	2,240 7,06,000 1,83,200
			8,91,440				**8,91,440**

(5 Marks)

Answer-3 :

Income and Expenditure Account
for the year ended 31st March, 2015

		Rs.		**Rs.**
To Medicines consumed			By Prescription fees	3,30,000
Purchases	1,22,500		By Visiting fees	1,25,000
Less: Closing Stock	(47,500)	75,000	By Fees from lectures	12,000
To Motor car expense (60,000 x 2/3)		40,000		
To Salaries (Rs. 52,500 – Rs. 15,000)		37,500		
To Rent for clinic		30,000		
To General charges		24,500		
To Interest on loan		18,000		
To Excess of Income over expenditure		2,42,000		
		4,67,000		**4,67,000**

(3 Marks)

Capital Account
for the year ended 31st March, 2015

	Rs.		Rs.
To Drawings:		By Cash/bank	1,00,000
Motor car expenses	20,000	By Cash/bank (pension)	1,50,000
Household expenses	90,000	By Net income from practice	2,42,000
Marriage expenses	1,07,500	(derived from income	
To Salary of domestic servants	15,000	and expenditure a/c)	
To Household furniture	12,500		
To Balance c/d	2,47,000		
	4,92,000		**4,92,000**

(3 Marks)

Balance Sheet as on 31st March, 2015

Liabilities	**Rs.**	**Assets**	**Rs.**
Capital	2,47,000	Motor car	1,60,000
Loan	1,50,000	Surgical equipment	1,25,000
		Stock of medicines	47,500
		Cash at bank	55,000
		Cash in hand	9,500
	3,97,000		**3,97,000**

(4 Marks)

Answer-4 :

Sunshine Ltd.
Statement showing calculation of profit/losses for pre and post incorporation periods

Particulars	**Basis of apportionment**	**Pre-inc.**	**Post-inc.**
		`	`
Sales	Sales Ratio	26,00,000	2,08,00,000
Less: Cost of goods sold	Sales Ratio	18,20,000	1,45,60,000
Salaries	Sales Ratio	90,000	10,80,000
Depreciation	Time Ratio	36,000	1,44,000
Advertisement	WN - 4	78,000	6,24,000
Discounts	Sales Ratio	1,30,000	10,40,000
M.D.'s remuneration	Actual	—	90,000
Misc. Office Expenses	Time Ratio	24,000	96,000
Rent	WN – 5	90,000	6,30,000
Interest	Actual	3,51,000	6,00,000
Net Profit/(Loss)		19,000	19,36,000

Working Notes:

1. Calculation of ratio of sales:
   Let the average sales per month in pre-incorporation period be x. Then the average sales in post-inc. period are 2x. Thus total sales are $(3 \times x) + (12 \times 2x)$ or $27x$. Ratio of sales will be $3x$: $24x$ or 1:8.
   Time ratio is 3 months : 12 months or 1:4
2. Expenses apportioned on turnover ratio basis are cost of goods sold, advertisement, discounts.
3. Expenses apportioned on time ratio basis are Depreciation, and misc. office expenses.
4. Ratio for apportionment of Salaries:
   If pre-incorporation monthly average is x, for 3 months $3x$.
   Average for balance 12 months $3x$, for 12 months $36x$.

Hence, ratio for division 1:12.

5. Apportionment of Rent:

Particulars		`
Total Rent		7,20,000
Additional rent for 9 months (From 1st July 2012 to 31st March, 2013)		(2,70,000)
Rent for old premises for 15 months at `30,000 p.m.		4,50,000
	Pre-inc.	Post-inc.
Old Premises	90,000	3,60,000
Additional rent	—	2,70,000
	90,000	6,30,000

Note on treatment

Since the profits prior to incorporation are in the negative, they would:

(a) Either be considered as a reduction from any capital reserve accruing in relation to the transaction, or

(b) Be treated as goodwill.

(10 Marks)

Answer-5

Calculation of Claim for Loss of Profit:

1) **Gross Profit ratio:** $= \frac{\text{Netprofit+insured standing charges}}{\text{Turnover of last accounting year}} \times 100$

$= (70{,}000 + 56{,}000 / 4{,}20{,}000 \times 100 = 30\%$

2) **Short Sales:**

Under turnover

(Turnover from 1st Feb. 2012 to 30th June 2012)		2,00,000
Add: 15% expected increase	30,000	
		2,30,000
Less: Actual turnover (from 1st February,13 – 30th June,13)	(80,000)	
Short Sales	1,50,000	

3) **Gross Profit on short sales** @ 30% on `1,50,000 =`45,000

4) **Annual Adjusted turnover:**

Annual Turnover (from 1st February,12 to 31st January, 2013)	4,50,000
Add: 15% increase	67,500
	5,17,500

Gross Profit on adjusted annual turnover @ 30%(5,17,500 × 30%) =`1,55,250

5) **Amount allowable in respect of additional expenses**

Least of the following:

(i) $\frac{Additional\ expenses \times Gross\ Profit\ on\ annual\ adjusted\ turnover}{Gross\ Profit\ on\ adjusted\ turnover + Uninsured\ standing\ charges}$

$= \frac{6{,}700 \times 1{,}55{,}250}{1{,}55{,}250 + 8{,}000}$ =`6,372

(ii) Actual expenses =`6,700

(iii) Turnover due to this expenses `80,000 × 30% =`24,000

(if turnover due to additional expenses is not given then assume actual turnover as the turnover due to this expenses)

Least of three i.e. `6,372 is admissible.

6) **Calculation of Claim:**

Gross profit on short sales

Add: increased cost of working

Less: Savings in insured standing charges

= 45,000 + 6,372 – 2,450

=`48,922

7) **Application of average clause**

$$\frac{Amount\ of\ Gross\ Claim}{G.P. on\ adjusted\ annual\ turnover} \times Amount\ of\ Policy$$

$$= \frac{1,25,000 \times 48,922}{1,55,250}$$

Amount of claim under the policy `39,390

(6 Marks)

Answer-6

Let the base date be 4.5.2011

Due Date	Amount	Days from Base Date	Product (Amt× Days)
4.5.2011	400	0	0
13.6.2011	300	40	12,000
13.6.2011	200	40	8,000
18.5.2011	325	14	4,550
12.7.2011	500	69	34,500
	1,725		**59,050**

Average due date=Base date+ $\frac{\text{Sum of Product}}{\text{Sum of Amount}}$

=4.5.2011 + $\frac{59,050}{1,725}$ =4.5.2011 +34.23 days = 7th June 2011

Working of days from Base date to Due date

Due Date	May (From 4.5)	June	July	Total
13.6	27	13	-	40
13.6	27	13	-	40
18.5	14	-	-	14
12.7	27	30	12	69

(4 Marks)