SUGGESTED SOLUTION

IPCC NOVEMBER 2017 EXAM

ACCOUNTING

Test Code - I N J 1 0 1 2

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

In General Ledger
Debtors Ledger Adjustment Account

Dr.			**Cr.**
2011	**Rs.**	**2011**	**Rs.**
Jan. 1 To Balance b/d	50,000	Mar.31 By General ledger adjustment account:	
Mar. 31 To General ledger adjustment account:			
Sales [(100/120) x (1,80,000-4,800)]	1,46,000	Collection-cash and bank(70 % of the Rs. 1,96,000)	1,37,200
Creditors-bill receivable dishonoured	6,000	Discount	20,000
Bank-cheques dishonoured	8,000	Bills receivable	30,000
		Bad debts (6,000+2,000)	8,000
		By Balance c/d	14,800
	2,10,000		**2,10,000**

(4 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

(8 Marks)

Answer-6

In the Books of Rocky Ltd.
Trading Account
for the year ending 31.3.07

Dr.				Cr.
Particulars	`	**Particulars**		`
To Opening Stock	3,75,000	By Sales		8,55,000
To Purchases	5,20,000	By Closing Stock		
To Gross Profit (Bal. figure)	1,71,000	Normal	1,89,000	
		Abnormal	22,000	2 11 000
	10,66,000			**10,66,000**

Always calculate normal Gross Profit Rate. Therefore restore the closing stock at original value by adding `11,000 to `2,00,000. Now closing stock is `2,11,000.

Gross Profit Rate = Gross Profit/Sales × 100

=`1,71,000 / `8,55,000 × 100

= 20%.

Memorandum Trading Account
For the period from 1.4.2007 to 11.11.2007

Dr. **Cr**

Particulars	**Normal Amount `**	**Abnormal Amount `**	**Particulars**	**Normal Amount `**	**Abnormal Amount `**
To Opening Stock	1,89,000	22,000	By Sales	4,30,000	5,500
To Purchases	3,41,000	-	By Loss	-	11,000
To Gross Profit (20%)	86,000	-	By Closing Stock	1,86,000	5,500
	6,16,000	**22,000**		**6,16,000**	**22,000**

Calculation of Loss of Stock:	`
Closing stock on the date of fire	1,86,000
Add: Value of abnormal stocks	5,500
Total value of stock	1,91,500
Less: Salvage value of stock	11,500
Loss of stock	1,80,000

(8 Marks)