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SUGGESTED SOLUTION

IPCC NOVEMBER 2017 EXAM

Accounts

Test Code - I N J 1008

BRANCH - (Multiple) (Date : 14.05.2017)

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

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Answer-1

Computation of Purchase Consideration

	Rs.
Value of 15,000 equity shares @ Rs. 80 per share = Rs. 12,00,000	
Shares to be issued by Y Co. Ltd. (Rs. 12,00,000/120 per share) shares @ Rs. 120 each)	12,00,000
11% Preference shareholders to be issued equivalent 11% Debentures by Y Co. Ltd.	5,00,000
Total Purchase consideration	17,00,000

Journal Entries in the books of Y Co. Ltd.

		Rs.	Rs.
Business Purchase A/c	Dr.	17,00,000	
To Liquidator of X Co. Ltd.			17,00,000
(Being the amount payable to X Co. Ltd's liquidator)			
Land & Building A/c	Dr.	10,00,000	
Plant & Machinery A/c Furniture & Fittings A/c Inventory in	Dr.	7,00,000	
Trade A/c Trade receivables A/c Cash & Bank A/c	Dr.	2,00,000	
To Trade payables	Dr.	3,00,000	
To Capital Reserve (Balancing figure)	Dr.	2,00,000	
To Business Purchase	Dr.	1,00,000	2,00,000
Being the value of assets and liabilities taken over from X Co. Ltd.)			6,00,000
			17,00,000
Liquidators of X Co. Ltd. Account To Equity Share Capital	Dr.	17,00,000	
To Securities Premium Account To 11% Debentures			10,00,000
(Being purchase consideration discharged)			2,00,000
			5,00,000

(10 Marks)

Answer—2(A) :

Calculation of Average Due Date
(Taking November 19, 2010 as the base date)

Date of Bill	Term	Due date (including 3 Grace days)	Amount Rs.	No. of days From the base date	Product (No. of days x amount)
16th August, 2010	3 months	Nov. 19, 2010	3,000	0	0
20th October, 2010	60 days	Dec. 22, 2010	2,500	33	82,500
14th December, 2010	2 months	Feb. 17, 2011	2,000	90	1,80,000
24th January, 2011	60 days	March 28, 2011	1,000	129	1,29,000
06th March, 2011	2 months	May 09, 2011	1,500	171	2,56,500
			10,000		**6,48,000**

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

= November 19, 2010 +6,48,000/10,000

= November 19, 2010 + 65 days = January 23, 2011

(5 Marks)

Answer—2(B) :

Calculation of Average Due Date taking base date as 19.06.2011

Date of Bill	Period	Maturity date	No. of days From the base date	Amount(Rs.)	Products
09.03.2011	4 months	12.07.2011	23	4,000	92,000
16.03.2011	3 months	19.06.2011	0	5,000	0
07.04.2011	5 months	10.09.2011	83	6,000	4,98,000
18.05.2011	3 months	21.08.2011	63	5,000	3,15,000
				20,000	**9,05,000**

Average due date = Base date + $\frac{\text{Total of produt}}{\text{Total of amount}}$

= 19.06.2011 + $\frac{9,05,000}{20,000}$ = 19.06.2011 + 46 days = 4th August, 2011.

Computation of date of payment to earn interest of Rs.150

Interest per day = [Rs. 20,000 x (18/100)] / 365 days

= Rs. 3,600/365 = Rs. 10 per day (approx.)

To earn interest of Rs. 150, the payment should be made 15 days (Rs. 150 / Rs. 10 per day) earlier to the due date. Accordingly, the date of payment would be:

Date of payment to earn interest of Rs.150 = 4th August, 2011 –15 days = 20th July, 2011.

(5 Marks)

Answer—3 :

In the books of XY Ltd.
Investment in equity shares of ABC Ltd.
for the year ended 31st March, 2010

Date	Particulars	No.	Income Rs.	Amount Rs.	Date	Particulars	No.	Income Rs.	Amount Rs.
2009 April 1	To Balance b/d	15,000	–	2,25,000	2009 Oct.31	By Bank A/c. (W.N.5)	–	30,000	10,000
June 1	To Bank A/c	5,000	–	1,00,000	2010 Jan.1	By Bank A/c. (W.NB.4)	13,000	–	2,12,355
July 1	To Bonus Issue (W.N. 1)	4,000	–	–	March 31	By Balance c/d (W.N. 6)	13,000	–	1,69,500
Sept.1	To Bank A/c. (W.N. 2)	2,000	–	24,000					
2010 March 31	To P & L A/c. (W.N. 4)	–	–	42,855					
“	To P & L A/c.	–	30,000	–					
		26,000	**30,000**	**3,91,855**			**26,000**	**30,000**	**3,91,855**

Working Notes:

1. Calculation of no. of bonus shares issued

Bonus Shares = $\frac{15{,}000 \text{ shares} + 5{,}000 \text{ shares}}{5}$ x 1= 4,000 shares

2. Calculation of right shares subscribed

Right Shares = $\frac{15{,}000 \text{ shares} + 5{,}000 \text{ shares} + 4{,}000 \text{ shares}}{6}$ =4,000 shares

Shares subscribed by XY Ltd. = $\frac{4{,}000}{2}$ = 2,000 shares

Value of right shares subscribed = 2,000 shares @ Rs. 12 per share = Rs. 24,000

3. Calculation of sale of right entitlement

2,000 shares x Rs. 8 per share = Rs. 16,000

Amount received from sale of rights will be credited to P & L A/c as per para 13 ofAS 13 'Accounting for Investments'.

4. Calculation of profit on sale of shares

Total holding	= 15,000 shares	original
	5,000 shares	purchased
	4,000 shares	bonus
	2,000 shares	right shares
	26,000 shares	

50% of the holdings were sold

i.e. 13,000 shares (26,000 x1/2) were sold.

Cost of total holdings of 26,000 shares (on average basis)

= Rs. 2,25,000 + Rs. 1,00,000 + Rs. 24,000– Rs. 10,000

= Rs. 3,39,000

Average cost of 13,000 shares would be

= $\frac{3{,}39{,}000}{26{,}000}$ x 13,000 = Rs. 1,69,500

	Rs.
Sale proceeds of 13,000 shares (13,000 x Rs.16.50)	2,14,500
Less: 1% Brokerage	(2,145)
	2,12,355
Less: Cost of 13,000 shares	(1,69,500)
Profit on sale	42,855

5. Dividend received on investment held as on 1st April, 2009

= 15,000 shares x Rs. 10 x 20%

= Rs. 30,000 will be transferred to Profit and Loss A/c

Dividend received on shares purchased on 1st June, 2009

= 5,000 shares x Rs. 10 x 20% = Rs.10,000 will be adjusted to Investment A/c

Note: It is presumed that no dividend is received on bonus shares as bonus sharesare declared on 1st July, 2009 and dividend pertains to the year ended31.3.2009.

6. Calculation of closing value of shares (on average basis) as on31st March, 2010

$$13{,}000 \text{ x } \frac{3{,}39{,}000}{26{,}000} = \text{ Rs.}1{,}69{,}500$$

Closing value of shares would be Rs. 1,69,500. **(10 Marks)**

Answer-4(A)
:

Statement showing pre and post incorporation profit for the year ended 31st March, 2014

Particulars	Total Amount Rs.	Basis of Allocation	Pre-Incorporation Rs.	Post-Incorporation Rs.
Gross Profit	5,40,000	2:7	1,20,000	4,20,000
Less: Depreciation	1,23,000	1:2	41,000	82,000
Director's Fees	50,000	Post	-	50,000
Preliminary Expenses	12,000	Post	-	12,000
Office Expenses	78,000	1:2	26,000	52,000
Selling Expenses	72,000	2:7	16,000	56,000
Interest to vendors	5,000	Actual	4,000	1,000
Net Profit (Rs. 33,000 being pre Incorporation profit is transferred to capital reserve Account)	2,00,000		33,000	1,67,000

Working Notes:

1. **Sales ratio**
The sales per month in the first half year were half of what they were in the later half year. If in the later half year, sales per month is Re.1 then it should be 50 paise per month in the first half year. So sales for the first four months (i.e. from 1st April, 2013 to 31st July, 2013) will be 4 × .50 = Rs. 2 and for the last eight months (i.e. from 1st August, 2013 to 31st March, 2014) will be (2 × .50 + 6 × 1) = Rs. 7. Thus sales ratio is 2:7.
2. **Time ratio**
1st April, 2013 to 31st July, 2013 : 1st August, 2013 to 31st March, 2014
= 4 months : 8 months = 1:2
Thus, time ratio is 1:2.
3. **Gross profit**
Gross profit = Net profit + All expenses
= Rs. 2,00,000 + Rs. (1,08,000+15,000+50,000+12,000+78,000+72,000+5,000)
= Rs. 2,00,000 + Rs. 3,40,000 = Rs. 5,40,000.

(6 Marks)

Answer 4(B):

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

Particulars	Total Amount	Basis of	Pre-incorporation	Post-incorporation
	(Rs. in lakhs)		(Rs. in	(Rs. in
Gross Profit (25% of Rs.	400	Sales	100	300
Less: Salaries	69	Time	23	46
Rent, rates and Insurance	24	Time	8	16
Sundry office expenses	66	Time	22	44
Travellers' commission	16	Sales	4	12
Discount allowed	12	Sales	3	9
Bad debts	4	Sales	1	3
Directors' fee	25	Post	-	25
Audit Fees	9	Sales*	2.25	6.75
Depreciation on tangible	12	Time	4	8

Debenture interest	11	Post	-	11
Net profit	152		32.75	119.25

*Audit fee has been assumed to be related with tax audit and therefore apportioned into pre and post- incorporation periods on the basis of turnover.

(4 Marks)

Answer-5 :

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**

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 (derived from income and expenditure a/c)	2,42,000
Marriage expenses	1,07,500		
To Salary of domestic servants	15,000		
To Household furniture	12,500		
To Balance c/d	2,47,000		
	4,92,000		**4,92,000**

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**

(10 Marks)