J.K. SHAH TEST SERIES Evaluate Learn Succeed

IPCC – November 2017

ADVANCED ACCOUNTING

Test Code – 8037

Branch (MULTIPLE) (Date: 02.07.2017)

(50 Marks)

Note: All questions are compulsory.

Question 1 (10 marks)

In the books of Vriddhi Infra Ltd.

Journal Entries

Date	Particulars	Dr.	Cr.
2016			
		`	`
April 21	Bank A/c Dr.	2,50,000	
	To Investment A/c		2,00,000
	To Profit on sale of investment		50,000
	(Being investment sold on profit) (1 mark)		
April 25	Equity share capital A/c Dr.	2,50,000	
	Securities premium A/c Dr.	1,25,000	
	To Equity shares buy back A/c		3,75,000
	(Being the amount due to equity shareholders on buy back) (2mark)		
	Equity shares buy back A/c Dr.	3,75,000	
	To Bank A/c (Being the payment made on account of buy back of 25,000 Equity Shares) (1 mark)		3,75,000
	General Reserve A/c / P&L A/c Dr.	2,50,000	
	To Capital redemption reserve A/c		2,50,000
	(Being amount equal to nominal value of buy back shares from free reserves transferred to capital redemption reserve account as per the law)(2 mark)		
1st May	Capital redemption reserve A/c Dr. To Bonus shares A/c (W.N.1)	1,50,000	1,50,000
	(Being the utilization of capital redemption reserve to issue bonus shares) (2 mark)		

Bonus shares A/c	Dr.	1,50,000	
To Equity share capital A/	'c		1,50,000
(Being issue of one bonus every five equity shares h (2 marks)		r	

It is assumed that there is bank overdraft amounting $`85,000 \ [(40,000 + 2,50,000) \ less `3,75,000]$ **WN1:** Amount of Bonus Shares = (100,000 - 25000)/5 *10 = 150000

Question 2 (8 marks)

In the books of 3A Enterprises

Realisation Account (2 Marks)

	Rs.		Rs.
To Land and Buildings	14,00,000	By Creditors	6,00,000
To Machinery	11,00,000	By 3R Enterprises (Pvt.) Ltd. A/c	42,00,000
To Furniture	6,10,000		
To Stock	8,40,000		
To Debtors	6,00,000		
To Cash at Bank	1,90,000		
To Ramesh's capital	30,000		
To Roshan's capital	20,000		
To Rohan's capital	10,000		
	48,00,000		48,00,000

Partners' Capital Accounts (2 Marks)

	Amit	Ajay	Abhijeet		Amit	Ajay	Abhijeet
	Rs.	Rs.	Rs.		Rs.	Rs.	Rs.
To Shares in 3A Enterprises	21,00,000	14,00,000	7,00,000	By Balance b/d	16,80,000	11,60,000	6,70,000
(Pvt.) Ltd. A/c				By General Reserve	3,15,000	2,10,000	1,05,000
To Bank A/c (Settlement)	-	-	85,000	By Realization A/c (Profit) By Bank A/c (Settlement)	30,000	20,000	10,000
				(Cottionionity	75,000	10,000	
	21,00,000	14,00,000	7,85,000		21,00,000	14,00,000	<u>7,85,000</u>

In the Books of 3A Enterprises (Private) Ltd Journal Entries (1/2 mark for each entry, except entry no. 2)

			Rs.	Rs.
1.	Business Purchase A/c	Dr.	42,00,000	
	To M/s 3A Enterprises			42,00,000
	(Consideration payable for business purchased)	_		
2.	Land and Buildings A/c	Dr.	16,40,000	
	Machinery A/c	Dr.	9,90,000	
	Furniture A/c	Dr.	6,10,000	
	Stock A/c	Dr.	8,40,000	
	Debtors A/c	Dr.	6,00,000	
	Bank A/c	Dr.	1,90,000	
	To Creditors A/c			6,00,000
	To Provision for doubtful debts A/c			30,000
	To Business Purchase A/c			42,00,000
	To Capital Reserve A/c (balancing figure)			40,000
	(Assets and liabilities taken over for Rs. 42,00,000; balance credited to capital reserve) (2 marks)			
3.	Capital reserve A/c (Expenses of takeover)	Dr.	23,000	
	To Bank A/c			23,000
	(Expenses for take over debited to capital reserve)	_		
4.	M/s 3A Enterprises A/c	Dr.	42,00,000	
	To Equity share capital A/c			42,00,000
	(Allotment of fully paid equity shares to discharge consideration for business)	_		
5.	Preliminary expenses A/c*	Dr.	57,000	
	To Bank A/c			57,000
	(Expenses incurred to get the company incorporated)			
	*Preliminary expense is charged to profit and loss			
	account in the year in which it is incurred as per			
	para 56 of AS 26			

Question 3 (16 marks) Statement showing distribution of cash amongst the partners (11 marks)

		Trade	K's		Capital	
		Payable	Loan	K(Rs.)	L (Rs.)	M(Rs.)
Balance Due On 1 st Installment amount with the firm Rs. (275+18650)	18925	16500	4500	15000	7500	15000
Less : Dissolution expenses provided for	(3000) 15925					
Less:M's remuneration of 1% on assets realized (18650 x 1%)	(187) 15738					

Less: Payment made to Trade Payables Balance due								1
Trade Payables Railance due 17320 1732								
Balance due Nill 762 2 nd installment realized 17320 Less: M's remuneration of 1 % on assets realized (17320 x 1%) 17147 Less: Payment made to Trade Payables (162) 16985 600 Less: Payment for K's loan A/c amount available for distribution to partners (12485 x 10/110) Balance to be distributed to partners (12485 x 10/110) Balance to be distributed to partners on the basis of HRCM Less: Paid to M (W.N.1) (7600) (1350) Less: Paid to K and M in 4:3 (W.N.1) Balance due 10,000 Less: Paid to K and M in 4:3 (W.N.1) Balance due 10,000 Less: Ps remuneration of 10% of the amount distrusted to partners (1900 x 10/110) (900) Less: Paid to K, M in 4:3 for (W.N.1) (900) Less: Paid to K, M in 4:3 for (W.N.1) (150)								
Less: M's remuneration of 1		<u>(15738)</u>	15738					
Less: M's remuneration of 1 % on assets realized (17320 x 1%) (1731	Balance due	Nill	762					
Less: M's remuneration of 1 % on assets realized (17320 x 1%) (1731								
% on assets realized (1732 ox 1%)	2 nd installment realized	17320						
% on assets realized (1732 ox 1%)								
Company	Less: M's remuneration of 1							
Less: Payment made to Trade Payables	% on assets realized							
Less: Payment made to Trade Payables	(17320 x 1%)	(173)						
Less : Payment made to Trade Payables	,							
Trade Payables	Less :Payment made to							
Less: Payment for K's loan A/c amount available for distribution to partners Less: M's remuneration of 10% of the amount distributed to partners (12485 x 10/110) Balance to be distributed to partners on the basis of HRCM Less: Paid to M (W.N.1)		(162)	(162)					
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Less: Z's remuneration of 10% of the amount distrusted to partners (9900 x 10/110) Less : Paid to K,M in 4:3 for (W.N.1) Balance Less: paid to K,L,M in ratio 4:3:3 Balance Amount of 4 th and last installment 9900 (900) 9000 (657) (657) 10000 7500 (3140) (2355) (3140) (2355) 5145	1% on assets realized							
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10% of the amount distrusted to partners (9900 x 10/110) Less :Paid to K,M in 4:3 for (W.N.1) Balance Less: paid to K,L,M in ratio 4:3:3 Balance Amount of 4 th and last installment 10% of the amount distrusted to partners (9900) (900)		9900						
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(W.N.1) (1150) Balance 7850 Less: paid to K,L,M in ratio 7850 4:3:3 (3140) Balance - Amount of 4 th and last installment 7000 (657) - (3140) (2355) (2355) (2355) (5860) 5145 (5145) 5145	Less :Paid to K.M in 4:3 for							
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4:3:3 Balance - Amount of 4 th and last installment 4:3:3 - 7000								
Balance - 5145 Amount of 4 th and last installment - 6860 5145	-	7000			<u>101101</u>	123331	<u>,2333)</u>	
Amount of 4 th and last 7000		_			6860	5145	5145	
installment		7000			0000	<u>5175</u>	<u>5145</u>	
		7000						
	2000 Firm 5 remaineration of 1	I	I	I	I	I	I	l

% on assets realized (7,000 x 1%)	<u>(70)</u>					
Less: M's remuneration of	6930					
10% of the amount						
distributed to partners (6300 x10/110)	<u>(630)</u>					
	6300					
Less: Paid to K,L and M						
In 4:4:3	(6300)		(2520)	(1890)	(1890)	
	Nil			<u> </u>		
Loss suffered by partners			4340	3255	3255	

Working Notes: (2 marks)

- (i) Rs. 275 added to the first installment received on sale of assets represents the Cash in Bank
- (ii) The amount due to Creditors at the end of the utilization of First Installment is Rs. 762.

 However ,since the creditors were settled for Rs. 15900 only the balance Rs. 162 were paid and the balance Rs. 600 was transferred to the Profit & Loss Account.

(iii) Highest Relative Capital Basis (3 Marks)

	K (Rs.)	L (Rs.)	M (Rs.)
Balance of Capital Accounts (A)	15000	7500	15000
Profit sharing ratio	4	3	3
Capital Profit sharing ratio	3750	2500	5000
Capital in profit sharing			
Ratio taking L's Capital as base (B)	10000	7500	7500
Excess of K's Capital and M's Capital (A-B)=(C) Again repeating the process	5000	nil	7500
Profit sharing ratio	4		3
Capital Profit sharing ratio	1250		2500
Capital in profit sharing			
Ratio taking K's Capital as base (D)	5000		3750
Excess of M's Capital (C-D) =(E)	Nil		3750

Therefore, firstly Rs.3750 is to be paid to M, then K and M to be paid in proportion of 4:3 upto Rs. 8750 to bring the capital of all partners K,L and M in proportion to their profit sharing ratio. Therefore, balance available will be paid in the profit sharing ratio 4:3:3 to all partners viz K,Land M.

Question 4 (8 marks)

Books of Simran Ltd. Journal Entries

Date	Particulars	Debit Rs.	Credit Rs.
31.3.13	Employees Compensation Expense Account To Employees Stock Option Outstanding Account (Being compensation expense recognized in respect of 1,000 options granted to employees at discount of Rs.30) (1/2 mark)	12,000	12,000
	Profit and Loss Account To Employees Compensation Expense Account (Being employees compensation expense of the year transferred to P&L A/c) (1/2 mark)	12,000	12,000
31.3.14	Employees Compensation Expense Account To Employees Stock Option Outstanding Account (Being compensation expense recognized in respect of1,000 options granted to employees at discount of Rs.30 each, amortized on straight line basis over 2½ years) (1/2 mark)	12,000	12,000
	Profit and Loss Account To Employees Compensation Expense Account (Being employees compensation expense of the year transferred to P&L A/c) (1/2 mark)	12,000	12,000
31.3.15	Employees Compensation Expense Account To Employees Stock Option Outstanding Account (Being balance of compensation expense amortized Rs.30,000 less Rs.24,000) (1/2 mark)	6,000	6,000
	Profit and Loss Account Dr. To Employees Compensation Expense Account (Being employees compensation expense of the year transferred to P&L A/c) (1/2 mark)	6,000	6,000
31.7.15	Bank Account (Rs.60 × 1,000) Dr. To Equity Share Capital Account To Securities Premium Account (Being exercise of 1,000 options at an exercise price of Rs.60)(1 mark)	60,000	10,000 50,000
31.7.15	Stock Option Outstanding A/c ('30 x 1,000) Dr. To Securities Premium Account (Being the balance in the Employees Stock Option Outstanding Account transferred to Securities Premium A/c) (1 mark)	30,000	30,000

Working Notes

- (i) Total employees compensation expense = $1,000 \times (Rs.90 Rs.60) = Rs.30,000 (1 mark)$
- (ii) Employees compensation expense has been written off during 2½ years on straight line basis as under:

I year = Rs.12,000 (for full year) II year = Rs.12,000 (for full year) III year = Rs.6,000 (for half year) (2 mark)

Question 5 (8 marks)

10% Debentures Account

Date		Particulars		Date	Particulars	•
31 st M 2016	farch,	To Own debentures A/c	5,00,000	1 st April, 2015	By Balance b/d	40,00,000
		To Bank A/c	35,00,000			
			40,00,000			40,00,000

1 ½ marks

Debenture Redemption Sinking Fund Account

1											
	Date		Particula	rs	•	Date		Par	ticulars		,
	31 st 2016	March,	To 9% A/c (W.N.	(loss)	16,000	1st 2015	April,	By	Balance I	b/d	37,45,000
			To Gener reserv A/c (Bal. f	ve	40,00,000	31 st 2016	March,	Ву	Profit loss A/o	and	1,42,000
			To Reser		2,23,000			1	Interest sinking A/c (W.N.	fund	3,47,000
									debentu A/c V.N.4)		5,000
ı					42,39,000						42,39,000

3 marks

Working Notes:

1. Amount of stock as on 1st April, 2015

Sinking fund balance as on 1st April, 2015 Less: Own debentures	37,45,000 (4,95,000) 32,50,000

½ mark

2. Sales value of 9% stock

= Face value / ` per stock

= '33,00,000 / '100 = 33,000 stock

Sales value = 33,000 stock x * 98 per stock

= 132,34,000

½ mark

3. Interest credited to Sinking Fund

(ii) Interest on own debentures (5,000 Debentures x 100 x 10%) 50,000

3,47,000

½ mark

4. Own Debentures Account

				*			
1± 2015	April,	То	Balance b/d		31 st March, 2016	By 10% Debentures A/c	5,00,000
31st 2016	March,	То	Sinking fund A/c	5,000			
				5,00,000			5,00,000

1 mark

5. 9% Stock Account

		•			•
1st April, 2015	To Balance b/d (Face value '33,00,000) (W.N.1)	32,50,000	31st March, 2016	By Bank account (W.N.2)	32,34,000
		32,50,000		By Sinking fund (loss on sales)	16,000 32,50,000

1 mark
