



J.K. SHAH[®]

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IPCC MAY 2017 EXAM

ACCOUNTS AND ADVANCED ACCOUNTS

Test Code - I M J 7 1 3 7

BRANCH - (MULTIPLE) (Date : 08.12.2016)

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Answer-1 :

**Trading and Profit and Loss account
(for the year ending 31st March, 2016)**

Particulars	Rs.	Particulars	Rs.
To Opening Stock	40,000	By Sales	4,31,250
To Purchases (Working Note)	3,45,000	By Closing Stock	40,000
To Gross Profit c/d (20% on sales)	86,250		
	4,71,250		4,71,250
To Business Expenses	50,000	By Gross Profit b/d	86,250
To Depreciation on :			
Machinery	6,500		
Building	<u>5,000</u>		
To Net profit	24,750		
	86,250		86,250

(2 Marks)

Trade Debtors Account

Particulars	Rs.	Particulars	Rs.
To Balance b/d	50,000	By Bank (bal.fig.)	4,09,375
To Sales	4,31,250	By Balance c/d (1/6 of 4,31,250)	71,875
	4,81,250		4,81,250

(1 Mark)

Trade Creditors Account

Particulars	Rs.	Particulars	Rs.
To Bank (Balancing figure)	3,31,875	By Balancing b/d	30,000
To Balance c/d/ (1/8 of Rs. 3,45,000)	43,125	By Purchases	3,45,000
	3,75,000		3,75,000

(1 Mark)

Working Note:

	Rs.
(i) Calculation of Rate of Gross Profit earned during previous year	
A Sales during previous year (Rs. 50,000 x 12/2)	3,00,000
B Purchases (Rs. 30,000 x 12/1.5)	2,40,000
C Cost of Goods Sold (Rs. 40,000 + Rs. 2,40,000 – Rs. 40,000)	2,40,000
D Gross Profit (A-C)	60,000
E Rate of Gross Profit $\frac{\text{Rs.60,000}}{\text{Rs.3,00,000}} \times 100$	20%
(ii) Calculation of sales and Purchases during current year	Rs.
A Cost of goods sold during previous year	2,40,000
B Add: Increases in volume @ 25 %	<u>60,000</u>
	3,00,000
C Add: Increase in cost @ 15%	<u>45,000</u>
D Cost of Goods Sold during Current Year	3,45,000
E Add: Gross profit @ 25% on cost (20% on sales)	86,250
F Sales for current year [D+E]	4,31,250

(3 Marks)

Note: It has been considered that all sales and purchases are on credit basis only and there are no cash purchases and sales.

Answer-2 :

Balance Sheet of Bharat sports club as at 31st December, 2014

Liabilities	Rs.	Assets	Rs.
Outstanding Rent	6,000	Building	60,000
Advance Subscription	6,000	Stock of Sports materials	5,000
Capital Fund	2,71,000	Prepaid Insurance	3,000
(balancing Figure)		Outstanding subscription	12,000
		12% General Fund Investments	2,00,000
		Cash Balance	1,000
		Bank Balance	2,000
	2,83,000		2,83,000

Balance Sheet of Bharat Sports club as at 31st December, 2015

Liabilities	Rs.	Assets	Rs.
Outstanding Rent	3,000	Building	
Advance Subscription	4,000	Book Value	60,000
Advance Locker Rent	2,000	Less: Depreciation	<u>6,000</u>
Bank Overdraft	2,000	Furniture Cost	20,000
Capital Fund:		Less: Depreciation	<u>2,000</u>
Opening Balance	2,71,000	Stock of sports materials	2,000
Add: Entrance Fees	8,000	Prepaid Insurance	6,000
[20,000 x 40%]		Outstanding Subscription	8,000
Add: Life Membership fee	12,000	Outstanding Locker Rent	6,000
[Rs. 20,000 x 60%]		12% General	2,00,000
Add: Surplus	<u>60,000</u>	Fund Investments	
	3,51,000	Accrued Interest on 12%	
		General Fund Investments	4,000
		Cash Balance	64,000
	3,62,000		3,62,000

Answer-3 :

(a) Journal Entries in the books of M/s. Cube Ltd.

Particulars	Debit (Rs. in lakhs)	Credit (Rs. in lakhs)
(i) 8% Preference share capital A/c (Rs. 100 each)	Dr. 200	
To 8% Preference share capital A/c (Rs. 80 each)		160
To Capital Reduction A/c		40
(Being the preference shares of Rs.100 each reduced to Rs.80 each as per the approved scheme)		
(ii) Equity share capital A/c (Rs. 10 each)	Dr. 500	
To Equity share capital A/c (Rs. 2 each)		100
To Capital Reduction A/c		400
(Being the equity shares of Rs.10 each reduced to Rs.2 each)		
(iii) Capital Reduction A/c	Dr. 16	
To Equity share capital A/c (Rs. 2 each)		16
(Being 1/3rd arrears of preference share dividend of 3 years to be satisfied by issue of 8 lakhs equity shares of Rs. 2 each)		
(iv) 6% Debentures A/c	Dr. 150	
To Freehold property A/c		150
(Being claim of Debenture holders settled in part by		

	transfer of freehold property)			
(v)	Accrued debenture interest A/c To Bank A/c (Being accrued debenture interest paid)	Dr.	12	12
(vi)	Freehold property A/c To Capital Reduction A/c (Being appreciation in the value of freehold property)	Dr.	75	75
(vii)	Bank A/c To Investments A/c To Capital Reduction A/c (Being investment sold at profit)	Dr.	125	100 25
(viii)	Director's loan A/c To Equity share capital A/c (Rs. 2 each) To Capital Reduction A/c (Being director's loan waived by 70% and balance being discharged by issue of 22.5 lakhs equity shares of Rs.2 each)	Dr.	150	45 105
(ix)	Capital Reduction A/c To Profit and loss A/c To Trade receivables A/c (225 x 40%) To Inventories-in-trade A/c (150 x 80%) To Bank A/c (300 x 5%) (Being certain value of various assets, penalty on cancellation of contract, profit and loss account debit balance written off through Capital Reduction Account)	Dr.	483	261 90 120 15
(x)	Capital Reduction A/c To Capital reserve A/c (Being balance transferred to capital reserve account as per the scheme)	Dr.	143	143

(10 x 0.5 = 5 Marks)

(b) Capital Reduction Account

Dr.	(Rs. in lakhs)		Cr.	(Rs. in lakhs)
To Equity Share Capital	16	By Preference Share Capital	40	
To Trade receivables	90	By Equity Share Capital	400	
To Finished Goods	120	By Freehold Property	75	
To Profit & Loss A/c	261	By Bank	25	
To Bank A/c	15	By Director's Loan	105	
To Capital Reserve	143			
	645		645	

(3.5 Marks)

(c) Notes to Balance Sheet

	(Rs. in lakhs)	(Rs. in lakhs)
1. Share Capital		
Authorised:		
100 lakhs Equity shares of Rs. 2 each		200

4 lakhs 8% Preference shares of Rs. 80 each

320

520

Issued:

80.5 lakhs equity shares of Rs. 2 each

161

2 lakhs Preference Shares of Rs. 80 each

160

321

2. Tangible Assets

Freehold Property

275

Less: Utilized to pay Debenture holders

(150)

125

Add: Appreciation

75

200

Plant and Machinery

100

300

(1.5 Marks)

Answer-4 :

**In Debtors' Ledger
General Ledger Adjustment Account**

			Rs.				Rs.
1.4.2010	To Balance b/d		240	1.4.2010	By Balance b/d		47,200
	To Debtors ledger adjustment account				By Debtors ledger adjustment account:		
	Bank	58,200			Sales (on credit)	1,12,000	
	Discount	800			Bills receivable dishonoured	1,500	
	Returns	2,600			Endorsed bills receivable dishonoured	1,000	1,14,500
	Bills receivable				By Balance c/d		380
	Bad debts written off	20,100					
	Bad debts written off	2,500	84,200				
	To Debtors ledger adjustment account :						
	Transfer from debtors ledger to creditor's ledger	1,100					
	Transfer from creditor's ledger to debtor's ledger	1,900	3,000				
31.3.2011	To Balance c/d (bal.fig.)		74,640				
			1,62,080				1,62,080

(4 Marks)

**Creditor's Ledger
General Ledger Adjustment Account**

			Rs.				Rs.

1.4.2010	To Balance b/d		26,300	1.4.2010	By Balance b/d		280
	To Creditors' ledger adjustment A/c. :				By Creditors' ledger adjustment A/c.		
	Purchases	67,000			Bank	39,500	
	Endorsed bills	1,000	68,000		Discount received	500	
31.3.2011	To Balance b/d		420		Returns	1,800	
					Bills payable	5,500	
					Bills receivable endorsed	4,000	51,300
					By Creditors' ledger adjustment A/c.		
					Transfer from debtors' ledger to creditors' ledger	1,100	
					Transfer from creditors' ledger to debtors' ledger	1,900	3,000
				31.3.2011	By Balance c/d (bal.fig.)		40,140
			94,720				94,720

(4 Marks)

Notes: No entries will be made for the following transactions as they do not affect general ledger adjustment accounts:

- (i) Cash sales
- (ii) Bills payable matured
- (iii) Bills receivable discounted
- (iv) Bad debts recovered and
- (v) Provision for doubtful debts.

Answer-5 :

Calculation of liability of each underwriter assuming that the benefit of firm underwriting is not given to individual underwriters

	(Number of shares)				Total
	P	Q	R	S	
Gross Liability	30,000	30,000	20,000	20,000	1,00,000
Less: Marked applications (excluding firm underwriting)	(19,000)	(10,000)	(21,000)	(8,000)	(58,000)
Balance	11,000	20,000	(1,000)	12,000	42,000
Less: Surplus of R allocated to P, Q and S in the ratio of 3:3:2	(375)	(375)	1,000	(250)	-
Balance	10,625	19,625	-	11,750	42,000
Less: Unmarked applications including firm underwriting	(5,700)	(5,700)	(3,800)	(3,800)	(19,000)
Net Liability	4,925	13,925	(3,800)	7,950	23,000
Less: Surplus of R allocated to P, Q and S in the ratio of 3:3:2	(1,425)	(1,425)	3,800	(950)	-
	3,500	12,500	-	7,000	23,000
Add: Firm underwriting	3,000	2,000	1,000	1,000	7,000

Total Liability	6,500	14,500	1,000	8,000	30,000
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(5 Marks)

Calculation of underwriting commission:

As per law in force, underwriting commission is payable @ 5% of the issue price of shares.
 Underwriting commission payable to P and Q = 5% of (Rs. 15 × 30,000 shares) = Rs. 22,500.
 Underwriting commission payable to R and S = 5% of (Rs. 15 × 20,000 shares) = Rs. 15,000.

(1 Mark)

Working Note:

Application received from public	70,000 shares
Add: Shares underwritten firm	<u>7,000 shares</u>
Total application	77,000 shares
Less: Marked applications	<u>(58,000 shares)</u>
Unmarked application including firm underwriting	<u>19,000 shares</u>

(2 Marks)

Answer-6 :

Prakash Processors Limited

Liquidator's Statement of Account

Receipts	Rs.	Payments	Rs.
To Assets realised -		By Liquidation expenses	27,250
Bank	75,000	By Liquidator's Remuneration	36,750
Other assets:		By Debenture holders:	
Land etc.	3,00,000	Debentures	2,50,000
Machinery etc.	5,00,000	Interest accrued	37,500
Patents	75,000	Interest 1-1-11/30-6-11	<u>18,750</u>
Stock	1,50,000		3,06,250
Trade receivables	<u>2,00,000</u>	By Preferential creditors	38,000
To Call on equity		By Unsecured creditors	2,80,750
shareholders (7,500 × Rs. 2.65) (1)	19,875	By Preferential shareholders :	
		Preference capital	5,00,000
		Arrear of Dividend	<u>1,00,000</u>
			12,89,000
		By Equity shareholders -	
		Rs. 12.35 on 2,500 shares	30,875
	13,19,875		13,19,875

(5 Marks)

Working Notes:

- (1) Liquidator's remuneration $12,25,000 \times 3/100 = \text{Rs. } 36,750$
 (2) As the company is solvent, interest on the debentures will have to be paid for the period 1-1-2011 to 30-6-2011

$$2,50,000 \times \frac{15}{100} \times \frac{1}{2} = \text{Rs. } 18,750$$

- (3) Total equity capital - paid up Rs. 6,37,500
 Less : Balance available after payment to unsecured and preference shares
 (13,00,000 — 12,89,000) Rs. (11,000)
 Loss to be born by 10,000 equity shares Rs. 6,26,500
 Loss per share Rs. 62.65
 Hence, amount of call on Rs. 60 paid share Rs. 2.65
 Refund to share on Rs. 75 paid Rs. 12.35

(3 Marks)