SUGGESTED SOLUTION

IPCC NOVEMBER 2016 EXAM

ACCOUNTING

Test Code - I N J 1 0 1 4

BRANCH - (MUMBAI) (Date : 15.05.2016)

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Answer-1 (a):

Statement showing the amount to be charged to Revenue as per AS 7

	Rs. in crores
Cost of construction incurred upto 31.03.2014	120
Add: Estimated future cost	45
Total estimated cost of construction	165
Degree of completion (120/165 x 100)	72.73%
Revenue recognized (72.73% of 150)	109 (approx)
Total foreseeable loss (165 – 150)	15
Less: Loss for the current year (120 – 109)	11
Loss to be provided for	4

(3 Marks)

Profit and Loss Account (Extract)

	Rs. in crores		**Rs. in crores**
To Construction Costs	120	By Contract Price	109
To Provision for loss	4	By Net loss	15
	124		**124**

(2 Marks)

Answer-1 (b) :

As per para 12 of AS 9 'Revenue Recognition', 'In a transaction involving the rendering of services, performance should be measured either under the completed service contract method or under the proportionate completion method, whichever relates the revenue to the work accomplished'.

(2 Marks)

In the given case, income accrues when the related advertisement appears before public. The advertisement service would be considered as performed on the day the advertisement is seen by public and hence revenue is recognized on that date. In this case, it is 15.03.2014, the date of publication of the magazine.

(1 Mark)

Hence, Rs. 3,00,000 (Rs. 2,40,000 + Rs. 60,000) is recognized as income in March, 2014. The terms of payment are not relevant for considering the date on which revenue is to be recognized. Rs. 60,000 is treated as amount due from advertisers as on 31.03.2014 and Rs. 2,40,000 will be treated as payment received against the sale.

(1 Mark)

However, if the publication is delayed till 02.04.2014 revenue recognition will also be delayed till the advertisements get published in the magazine. In that case revenue of Rs. 3,00,000 will be recognized for the year ended 31.03.2015 after the magazine is published on 02.04.2014. The amount received from sale of advertising space on 10.03.2014 of Rs. 2,40,000 will be considered as an advance from advertisers for the year ended 31st March, 2014.

(1 Mark)

Answer-2 :

Elegant Ltd.
Balance Sheet as on 31st March, 2014

Particulars		**Notes**	**Rs.**
	Equity and Liabilities		
1	**Shareholders' funds**		

			Note	Rs.
	a	Share capital	1	49,95,000
	b	Reserves and Surplus	2	14,83,500
2	**Non-current liabilities**			
	Long-term borrowings		3	13,17,500
3	**Current liabilities**			
	a	Trade Payables		10,00,000
	b	Other current liabilities	4	37,500
	c	Short-term provisions	5	6,40,000
		Total		**94,73,500**
	Assets			
1	**Non-current assets**			
	Fixed assets			
	Tangible assets		6	56,25,000
2	**Current assets**			
	a	Inventories	7	12,50,000
	b	Trade receivables	8	10,00,000
	c	Cash and cash equivalents	9	13,85,000
	d	Short-term loans and advances		2,13,500
		Total		**94,73,500**

(6 Marks)

Notes to accounts

			Rs.
1	**Share Capital**		
	Equity share capital		
	Issued & subscribed & called up		
	50,000 Equity Shares of Rs. 100 each		
	(of the above 10,000 shares have been issued for consideration other than cash)	50,00,000	
	Less: Calls in arrears	(5,000)	49,95,000
	Total		**49,95,000**
2	**Reserves and Surplus**		
	General Reserve		10,50,000
	Surplus (Profit & Loss A/c)		4,33,500
	Total		**14,83,500**
3	**Long-term borrowings**		
	Secured Term Loan		
	State Financial Corporation Loan (7,50,000- 37,500)		
	(Secured by hypothecation of Plant and Machinery)		7,12,500
	Unsecured Loan		6,05,000
	Total		**13,17,500**
4	**Other current liabilities**		
	Interest accrued but not due on loans (SFC)		37,500
5	**Short-term provisions**		
	Provision for taxation		6,40,000
6	**Tangible assets**		
	Land and Building	30,00,000	
	Less: Depreciation	(2,50,000)	27,50,000
	Plant & Machinery	35,00,000	

	Less: Depreciation	(8,75,000)	26,25,000
	Furniture & Fittings	3,12,500	
	Less: Depreciation	(62,500)	2,50,000
	Total		**56,25,000**
7	**Inventories**		
	Raw Materials		2,50,000
	Finished goods		10,00,000
	Total		**12,50,000**
8	**Trade receivables**		
	Outstanding for a period exceeding six months		2,60,000
	Other Amounts		7,40,000
	Total		**10,00,000**
9	**Cash and cash equivalents**		
	Cash at bank		
	with Scheduled Banks	12,25,000	
	with others (Global Bank Ltd.)	10,000	12,35,000
	Cash in hand		1,50,000
	Total		**13,85,000**

(6 Marks)

Answer-3 :

Books of A Limited
Realisation Account

	Rs.		Rs.
To Building	3,40,000	By Trade payables	3,20,000
To Machinery	6,40,000	By B Ltd.	12,10,000
To Inventory	2,20,000	By Equity Shareholders (Loss)	76,000
To Trade receivables	2,60,000		
To Goodwill	1,30,000		
To Bank (Exp.)	16,000		
	16,06,000		**16,06,000**

(1 Mark)

Bank Account

To Balance b/d	1,36,000	By Realisation (Exp.)	16,000
To B Ltd.	6,00,000	By 10% debentures	4,00,000
		By Loan from A	1,60,000
		By Equity shareholders	1,60,000
	7,36,000		**7,36,000**

(1 Mark)

10% Debentures Account

To Bank	4,00,000	By Balance b/d	4,00,000

	4,00,000		**4,00,000**

Loan from A Account

To Bank	1,60,000	By Balance b/d	1,60,000
	1,60,000		**1,60,000**

Share issue Expenses Account

To Balance b/d	34,000	By Equity shareholders	34,000
	34,000		**34,000**

General Reserve Account

To Equity shareholders	80,000	By Balance b/d	80,000
	80,000		**80,000**

B Ltd. Account

To Realisation A/c	12,10,000	By Bank	6,00,000
		By Equity share in B Ltd.(4,880 shares at Rs. 125 each)	6,10,000
	12,10,000		**12,10,000**

(1 Mark)

Equity Shares in B Ltd. Account

To B Ltd.	6,10,000	By Equity shareholders	6,10,000
	6,10,000		**6,10,000**

(1 Mark)

Equity Share Holders Account

To Realisation	76,000	By Equity share capital	8,00,000
To Share issue Expenses	34,000	By General reserve	80,000
To Equity shares in B Ltd.	6,10,000		
To Bank	1,60,000		
	8,80,000		**8,80,000**

(1 Mark)

B Ltd

Balance Sheet as on 1st April, 2015 (An extract)*

	Particulars	**Notes**	**Rs.**
	Equity and Liabilities		
1	**Shareholders' funds**		

	a	Share capital	1	4,88,000
	b	Reserves and Surplus	2	1,07,000
2	**Current liabilities**			
	a	Trade Payables	3	2,80,000
	b	Bank overdraft		6,00,000
		Total		**14,75,000**
	Assets			
1	**Non-current assets**			
	a	Fixed assets		
		Tangible assets	4	8,82,000
		Intangible assets	5	2,16,000
2	**Current assets**			
	a	Inventories	6	1,83,000
	b	Trade receivables	7	1,94,000
				14,75,000

*In the absence of the particulars of assets and liabilities (other than those of A Ltd.), the complete Balance Sheet of B Ltd. after takeover cannot be prepared.

(4 Marks)

Notes to accounts

			Rs.
1	**Share Capital**		
	Equity share capital		
	4,880 Equity shares of Rs. 100 each		
	(Shares have been issued for consideration		
	other than cash)		4,88,000
	Total		**4,88,000**
2	**Reserves and Surplus (an extract)**		
	Securities Premium		1,22,000
	Profit and loss account	.....	
	Less: Unrealised profit	(15,000)	(15,000)
	Total		**1,07,000**
3	**Trade payables**		
	Opening balance	3,20,000	
	Less: Inter-company transaction cancelled upon		
	amalgamation	(40,000)	**2,80,000**
4	**Tangible assets**		
	Buildings		3,06,000
	Machinery		5,76,000
	Total		**8,82,000**
5	**Intangible assets**		
	Goodwill		2,16,000
6	**Inventories**		
	Opening balance	1,98,000	
	Less: Cancellation of profit upon amalgamation	(15,000)	**1,83,000**
7	**Trade receivables**		
	Opening balance	2,60,000	
	Less: Intercompany transaction cancelled upon amalgamation	(40,000)	
	Less: Provision for doubtful debts	(26,000)	**1,94,000**

Working Notes:

1. Valuation of Goodwill

	Rs.
Average profit	1,24,400
Less: 8% of Rs. 8,80,000	(70,400)
Super profit	54,000
Value of Goodwill = 54,000 x 4	2,16,000

(1 Mark)

2. Net Assets for purchase consideration

Goodwill as valued in W.N.1	2,16,000
Building	3,06,000
Machinery	5,76,000
Inventory	1,98,000
Trade receivables (2,60,000-26,000)	2,34,000
Total Assets	15,30,000
Less: Trade payables	(3,20,000)
Net Assets	12,10,000

Out of this Rs. 6,00,000 is to be paid in cash and remaining i.e., (12,10,000 – 6,00,000) Rs. 6,10,000 in shares of Rs. 125. Thus, the number of shares to be allotted 6,10,000/125 = 4,880 shares.

(1 Mark)

3. Unrealised Profit on Inventory **Rs.**

The Inventory of A Ltd. includes goods worth Rs. 1,00,000 which was sold by B Ltd. on profit. Unrealized profit on this Inventory will be

$\frac{40,000}{1,60,000}$ x 1,00,000 — 25,000

As B Ltd purchased assets of A Ltd. at a price 10% less than the book value, 10% need to be adjusted from the Inventory i.e., 10% of Rs. 1,00,000. — (10,000)

Amount of unrealized profit — 15,000

(1 Mark)

Answer-4 (a) :

Calculation of Average due date
(Base Date 15th Jan, 2012)

Date	Amount Rs.	No. of days from base date	Product Rs.
January 15	5,000	0	0
February 10	4,000	26	1,04,000
April 5	8,000	81	6,48,000
May 20	10,000	126	12,60,000
June 18	9,000	155	13,95,000
	36,000		**34,07,000**

[2] Bill dated 12th July, 2012 has the maturity period of one month, due date (after adding 3 days of grace) falls on 15th August, 2012. 15th August being public holiday, due date would be preceding date i.e. 14th August, 2012.

(2 Marks)

Average due date = Base date + $\frac{\text{Total product}}{\text{Total amount}}$ x days

$$= 15^{th} \text{ January} + \frac{34,07,000}{36,000} \text{ days}$$

$$= 15^{th} \text{ January} + 95 \text{ days} = 19^{th} \text{ April, } 2012$$

Number of days after 19th April, 2012 to 30th June, 2012 = 72 days

Interest on drawings after 19th April to 30th June @10%:

$$= \text{Rs.}36,000 \times \frac{72}{366} \times \frac{10}{100} = \text{Rs.}708$$

Hence, interest on drawings Rs. 708 will be charged from A on 30th June, 2012.

(2 Marks)

Answer-4 (b) :

In General Ledger
Debtors' Ledger Adjustment Account

	Rs.		Rs.
To Balance b/d (bal.fig.)	49,500	By General ledger adjustment account:	
To General ledger adjustment account:		Cash from debtors	20,000
Credit sale	40,000	Bills receivable	3,000
		Bad debts	5,000
		Discount allowed (1,500+500)	2,000
		By Balance c/d (60,000-500)	59,500
	89,500		**89,500**

(3 Marks)

Creditors' Ledger Adjustment Account

	Rs.		Rs.
To General ledger		By Balance b/d (bal. fig.)	28,000
adjustment A/c:		By General ledger adjustment A/c:	
Cash paid to creditors	7,500	Credit purchases	15,000
Bills payable	5,000		
To Balance c/d (30,000+500)	30,500		
	43,000		**43,000**

(3 Marks)

Answer-5 :

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

(3 Marks)

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.

(1 x 3 = 3 Marks)