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IPCC NOVEMBER 2016 EXAM

ACCOUNTING

Test Code - I N J 1 0 1 5

BRANCH - (MUMBAI) (Date : 15.05.2016)

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Answer-1 (a):

As per AS 13 'Accounting for Investments', where long-term investments are reclassified as current investments, transfers are made at the lower of cost and carrying amount at the date of transfer. And where investments are reclassified from current to long term, transfers are made at lower of cost and fair value on the date of transfer. **(2 Marks)**

Accordingly, the re-classification will be done on the following basis:

- (i) In this case, carrying amount of investment on the date of transfer is less than the cost; hence this re-classified current investment should be carried at Rs. 6.5 lakhs in the books. **(0.5 Mark)**
- (ii) The carrying / book value of the long term investment is same as cost i.e. Rs. 7 lakhs. Hence this long term investment will be reclassified as current investment at book value of Rs. 7 lakhs only. **(0.5 Mark)**
- (iii) In this case, reclassification of current investment into long-term investments will be made at Rs. 10 lakhs as cost is less than its market value of Rs. 12 lakhs. **(1 Mark)**
- (iv) In this case, market value is Rs. 14 lakhs which is lower than the cost of Rs. 15 lakhs. The reclassification of current investment as long-term investments will be made at Rs. 14 lakhs. **(1 Mark)**

Answer-1 (b) :

As per AS 13 'Accounting for Investments', for investment in shares - if the investment is purchased with an intention to hold for short-term period then it will be shown at the realizable value of Rs. 2,25,000 as on 31st March, 2015.

If equity shares are acquired with an intention to hold for long term period then it will continue to be shown at cost in the Balance Sheet of the company. However, provision for diminution shall be made to recognize a decline, if other than temporary, in the value of the investments.

As per the standard, investment acquired for long term period shall be shown at cost. Gold and silver are generally purchased with an intention to hold it for long term period until and unless given otherwise. **(3 Marks)**

Hence, the investment in Gold and Silver (purchased on 1st March, 2009) shall continue to be shown at cost as on 31st March, 2015 i.e., Rs. 4,00,000 and Rs. 2,00,000 respectively, though their realizable values have been increased. **(2 Marks)**

Answer-2 :**Journal Entries**

		Rs.	Rs.
Bank A/c	Dr.	10,00,000	
To Equity share capital A/c			10,00,000
(Being money on final call received)			(0.5 Mark)
Equity share capital (Rs. 50) A/c	Dr.	75,00,000	
To Equity share capital (Rs. 40) A/c			60,00,000
To Capital Reduction A/c			15,00,000
(Being conversion of equity share capital of Rs. 50 each into Rs. 40 each as per reconstruction scheme)			(0.5 Mark)
Bank A/c	Dr.	12,50,000	
To Equity Share Capital A/c			12,50,000
(Being new shares allotted at Rs. 40 each)			(0.5 Mark)
Trade Creditors A/c	Dr.	12,40,000	
To Equity share capital A/c			7,50,000
To Bank A/c (4,90,000 x 70%)			3,43,000
To Capital Reduction A/c			1,47,000

(Being payment made to creditors in shares or cash to the extent of 70% as per reconstruction scheme) **(0.5 Mark)**

8% Debentures A/c	Dr.	3,00,000	
12% Debentures A/c	Dr.	4,00,000	
To Shiv A/c			7,00,000
(Being cancellation of 8% and 12% debentures of Shiv)			(0.5 Mark)

Shiv A/c	Dr.	8,00,000	
To 15% Debentures A/c			6,00,000
To Capital Reduction A/c			2,00,000
(Being issuance of new 15% debentures and balance transferred to capital reduction account as per reconstruction scheme)			(0.5 Mark)

Bank A/c	Dr.	1,00,000	
To Shiv A/c			1,00,000
(Being new debentures subscribed by Shiv)			

8% Debentures A/c	Dr.	1,00,000	
12% Debentures A/c	Dr.	2,00,000	
To Ganesh A/c			3,00,000
(Being cancellation of 8% and 12% debentures of Ganesh)			(0.5 Mark)

Ganesh A/c	Dr.	3,00,000	
To 15% Debentures A/c			2,50,000
To Capital Reduction A/c			50,000
(Being issuance of new 15% debentures and balance transferred to capital reduction account as per reconstruction scheme)			(0.5 Mark)

Land and Building (51,84,000 – 42,70,000)	Dr.	9,14,000	
Inventories	Dr.	30,000	
To Capital Reduction A/c			9,44,000
(Being value of assets appreciated)			(0.5 Marks)

Outstanding expenses A/c	Dr.	10,60,000	
To Bank A/c			10,60,000
(Being outstanding expenses paid in cash)			(0.5 Mark)

Capital Reduction A/c	Dr.	33,41,000	
To Machinery A/c			1,30,000
To Computers A/c			1,20,000
To Trade receivables A/c			1,09,000
To Goodwill A/c			22,00,000
To Profit and Loss A/c			7,82,000
(Being amount of Capital Reduction utilized in writing off P & L A/c (Dr.) balance, goodwill and downfall in value of other assets)			(0.5 Mark)

Capital Reserve A/c	Dr.	5,00,000	
To Capital Reduction A/c			5,00,000
(Being debit balance of capital reduction account adjusted against capital reserve)			(0.5 Mark)

Balance Sheet (as reduced) as on 31.3.2014

Particulars	Notes	Rs.
Equity and Liabilities		
1 Shareholders' funds		
a Share capital	1	80,00,000
2 Non-current liabilities		
a Long-term borrowings	2	<u>8,50,000</u>
Total		<u>88,50,000</u>
Assets		
1 Non-current assets		
a Fixed assets		
Tangible assets	3	63,04,000
2 Current assets		
a Inventories		3,50,000
b Trade receivables		9,81,000
c Cash and cash equivalents		<u>12,15,000</u>
Total		<u>88,50,000</u>

(4 Marks)

Notes to accounts

	Rs.
1. Share Capital	
2,00,000 Equity shares of Rs. 40	80,00,000
2. Long-term borrowings	
Secured	
15% Debentures (assumed to be secured)	8,50,000
3. Tangible assets	
Land & Building	51,84,000
Machinery	7,20,000
Computers	<u>4,00,000</u>
	63,04,000

Working Notes:

1. Cash at Bank Account

Particulars	Rs.	Particulars	Rs.
To Balance b/d	2,68,000	By Trade Creditors A/c	3,43,000
To Equity Share capital A/c	10,00,000	By Outstanding expenses A/c	10,60,000
To Equity Share Capital A/c	12,50,000	By Balance c/d (bal. fig.)	12,15,000
To Shiv A/c	1,00,000		
	26,18,000		26,18,000

(1 Mark)

2. Capital Reduction Account

Particulars	Rs.	Particulars	Rs.
To Machinery A/c	1,30,000	By Equity Share Capital A/c	15,00,000
To Computers A/c	1,20,000	By Trade Creditors A/c	1,47,000
To Trade receivables A/c	1,09,000	By Shiv A/c	2,00,000
To Goodwill A/c	22,00,000	By Ganesh A/c	50,000
To Profit and Loss A/c	7,82,000	By Land & Building	9,14,000
		By Inventories	30,000

By Capital Reserve A/c

5,00,000

33,41,000

33,41,000

(1 Mark)

Answer-3 :

Bose and Sen Ltd.
Balance Sheet as on 31st March, 2015

Particulars	Notes	Figures at the end of current reporting period (Rs.)
Equity and Liabilities		
1 Shareholders' funds		
a Share capital	1	69,93,000
b Reserves and Surplus	2	21,56,000
2 Non-current liabilities		
a Long-term borrowings	3	16,97,000
3 Current liabilities		
a Trade Payables		14,00,000
b Other current liabilities	4	2,00,000
c Short-term provisions	5	<u>8,16,900</u>
Total		<u>1,32,62,900</u>
Assets		
1 Non-current assets		
a Fixed assets		
Tangible assets	6	74,75,000
Intangible assets (Patents & Trade Marks)		4,00,000
2 Current assets		
a Inventories	7	17,50,000
b Trade receivables	8	14,00,000
c Cash and cash equivalents	9	19,39,000
d Short-term loans and advances		<u>2,98,900</u>
Total		<u>1,32,62,900</u>

(8 Marks)

Notes to accounts

Rs.

1 Share Capital		
Equity share capital		
Issued, subscribed and called up		
7,00,000 Equity Shares of Rs. 10 each		
(Out of the above 4,20,000 shares have been issued for consideration other than cash)	70,00,000	
Less: Calls in arrears	<u>(7,000)</u>	69,93,000
Total		<u>69,93,000</u>
		(0.5 Mark)
2 Reserves and Surplus		
General Reserve		15,49,100
Surplus (Profit & Loss A/c)	7,00,000	
Less: Preliminary expenses	<u>(93,100)*</u>	6,06,900
Total		<u>21,56,000</u>
*Preliminary expenses have been written off in line with Accounting Standards.		

			(0.5 Mark)
3	Long-term borrowings		
	Secured		
	Term Loans		
	Loan from State Finance Corporation		8,50,000
	(Rs. 10,50,000 - Rs. 2,00,000)		
	(Secured by hypothecation of Plant and Machinery)		
	Unsecured		
	Bank Loan	2,00,000	
	Loan from related parties	1,00,000	
	Others	<u>5,47,000</u>	8,47,000
	Total		<u>16,97,000</u>
			(0.5 Mark)
4	Other current liabilities		
	Loan Instalment repayable within one year		2,00,000
			(0.5 Mark)
5	Short-term provisions		
	Provision for taxation		<u>8,16,900</u>
6	Tangible assets		
	Land		14,00,000
	Buildings	28,00,000	
	Less: Depreciation	<u>(7,50,000)</u>	20,50,000
	Plant & Machinery	49,00,000	
	Less: Depreciation	<u>(12,25,000)</u>	36,75,000
	Furniture & Fittings	4,37,500	
	Less: Depreciation	<u>(87,500)</u>	<u>3,50,000</u>
	Total		<u>74,75,000</u>
			(0.5 Mark)
7	Inventories		
	Raw Material		3,50,000
	Finished goods		<u>14,00,000</u>
			<u>17,50,000</u>
			(0.5 Mark)
8	Trade receivables		
	Debts outstanding for a period exceeding six months		3,80,000
	Other Debts		<u>10,20,000</u>
	Total		<u>14,00,000</u>
			(0.5 Mark)
9	Cash and cash equivalents		
	Cash at bank with Scheduled Banks including Bank deposits for period of 9 months amounting Rs. 5,00,000	17,11,000	
	with others	<u>18,000</u>	17,29,000
	Cash in hand		2,10,000
			(0.5 Mark)
	Total		<u>19,39,000</u>

Answer-4 (a) :

Let us assume 9th January, 2012 to be the base date:

Date of Sale	Due date of payment	Amount (Rs.)	No. of days from 9th January, 2012	Product
Jan. 2	Jan. 9	6,000	0	0
Jan. 28	Feb. 4	5,500	26	1,43,000

Feb. 17	Feb. 24	7,000	46	3,22,000
March 3	March 10	4,700	61	2,86,700
		23,200		7,51,700

(2 Marks)

$$\text{Average Due date} = \text{Base date} + \frac{\text{Sum of Product}}{\text{Sum of amount}}$$

$$= 9\text{th January, 2012} + \frac{7,51,700}{23,200} = 33 \text{ days}$$

33 days from 9th January, 2012 = 11th February, 2012

Thus, average due date = 11th February, 2012

No. of days after 11th February, 2012 to 31st March, 2012 = 49 days.

Interest payable by Anil on Rs. 23,200 for 49 days @ 12% per annum

$$= \text{Rs.} 23,200 \times \frac{49}{366} \times \frac{12}{100} = \text{Rs.} 372.72$$

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

(3 Marks)

Answer-5 :

**Balance Sheet of Sports Club
As at 31st March 2013**

Liabilities	Rs.	Rs.	Assets	Rs.	Rs.
Capital Fund:			Fixed Assets:		
Opening Balance (W.N.)	7,83,000		Club, Grounds & Pavilion		4,40,000
			Furniture & Fixtures	40,000	

Add: Surplus	<u>1,38,000</u>	9,21,000	Add: Additions	<u>20,000</u>	
Current Liabilities:				<u>60,000</u>	
Outstanding Salary (15,000-10,000)		5,000	Less : Depreciation	<u>(5,000)</u>	55,000
Outstanding Audit Fees		5,000	Sports Equipments	2,50,000	
Creditors for Printing & Stationery {22,000-(26,000- 5,000)}		1,000	Less: Depreciation	<u>(90,000)</u>	1,60,000
Subscription received in advance		4,000	Investments :		
			Investment (at cost)		2,00,000
			Accrued Interest		6,000
			[Rs. 12,000 - Rs. 6,000]		
			Current Assets:		
			Accrued rent (28,000 - 24,000)		4,000
			Subscription receivable For 2011-12 (8,000-6,000)		2,000
			For 2012-13 {(1,56,000- (1,50,000 + 2,000)}		4,000
			Entrance Fees receivables (1,05,000-1,00,000)		5,000
			Prepaid Insurance (12,000-10,000)		2,000
			Cash and bank		58,000
			9,36,000		9,36,000

(4 Marks)

Working Note:

**Calculation of Capital Fund as on 1st April, 2012
Balance Sheet of Sports Club
As at 31st March 2012**

Liabilities	Rs.	Assets	Rs.
Capital Fund (bal.fig.)	7,83,000	Fixed Assets :	
Current Liabilities:		Club, Grounds & Pavilion	4,40,000
Subscription received in advance	2,000	Furniture & Fixtures	40,000
Creditors for Printing and Stationary	5,000	Sports Equipments	2,50,000
		Current Assets:	
		Entrance Fees receivables	10,000
		Subscription receivables	8,000
		Cash and Bank	42,000
			7,90,000

(2 Marks)