



J.K. SHAH[®]
TEST SERIES
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SUGGESTED SOLUTION
IPCC NOVEMBER 2016 EXAM

ACCOUNTING

Test Code - I N J 1 0 1 6

BRANCH - (MUMBAI) (Date : 15.05.2016)

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Answer-1 :**(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) To 8% Preference share capital A/c (Rs. 80 each) To Capital Reduction A/c (Being the preference shares of Rs. 100 each reduced to Rs. 80 each as per the approved scheme)	Dr. 200	160 40
		(0.5 Mark)
(ii) Equity share capital A/c (Rs. 10 each) To Equity share capital A/c (Rs. 2 each) To Capital Reduction A/c (Being the equity shares of Rs. 10 each reduced to Rs. 2 each)	Dr. 500	100 400
		(0.5 Mark)
(iii) Capital Reduction A/c To Equity share capital A/c (Rs. 2 each) (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)	Dr. 16	16
		(0.5 Mark)
(iv) 6% Debentures A/c To Freehold property A/c (Being claim of Debenture holders settled in part by transfer of freehold property)	Dr. 150	150
		(0.5 Mark)
(v) Accrued debenture interest A/c To Bank A/c (Being accrued debenture interest paid)	Dr. 12	12
		(0.5 Mark)
(vi) Freehold property A/c To Capital Reduction A/c (Being appreciation in the value of freehold property)	Dr. 75	75
		(0.5 Mark)
(vii) Bank A/c To Investments A/c To Capital Reduction A/c (Being investment sold at profit)	Dr. 125	100 25
		(0.5 Mark)
(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
		(0.5 Mark)
(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)	Dr. 483	261 90 120 15

Account)			(0.5 Mark)
(x) Capital Reduction A/c	Dr.	143	
To Capital reserve A/c			143
(Being balance transferred to capital reserve account as per the scheme)			(0.5 Mark)

(b) Capital Reduction Account

	(Rs. In lakhs)		(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

(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		<u>320</u>
		<u>520</u>
Issued:		
80.5 lakhs equity shares of Rs. 2 each		161
2 lakhs Preference Shares of Rs. 80 each		<u>160</u>
		<u>321</u>
2. Tangible Assets		
Freehold Property	275	
Less: Utilized to pay Debenture holders	<u>(150)</u>	
	125	
Add: Appreciation	<u>75</u>	200
Plant and Machinery		<u>100</u>
		<u>300</u>

(2 Marks)

Answer-2 :

**Trading and Profit and Loss Account of Mr. Shiv Kumar
for the year ended 31st March, 2011**

	Rs.		Rs.
To Opening stock (balancing figure)	80,000	By Sales(80000*100/20)	4,00,000
To Purchases(48,000*100/20)	2,40,000	By stock	40,000
To Gross profit c/d @ 30% on sales	1,20,000		
	4,40,000		4,40,000

To Miscellaneous expenses (Rs. 80,000 - Rs. 8,000 + Rs. 10,000)	82,000	By Gross profit b/d	1,20,000
		By Miscellaneous receipts	20,000
		By Net loss transferred to Capital A/c	25,840
To Depreciation:			
Building	Rs. 36,000		
Furniture (Rs. 6,800 + Rs. 1,000)	Rs. 7,800		
Motor Car	<u>Rs. 16,000</u>	59,800	
To Loss on sale of furniture		11,000	
To Bad debts		8,000	
To Provision for doubtful debts		5,040	
		1,65,840	1,65,840

(3 Marks)

**Balance Sheet of Mr. Shivkumar
as on 31st March, 2011**

Liabilities	Rs.	Rs.	Assets	Rs.	Rs.
Capital as on 1 st April, 2010		7,16,000	Building	3,20,000	
Profit and Loss A/c.			Add : Addition during the year	<u>40,000</u>	
Opening Balance	40,000			3,60,000	
Less : Loss for the year	<u>(25,840)</u>	14,160	Less : Provision for Depreciation	<u>(36,000)</u>	3,24,000
Sundry creditors	1,12,000		Furniture	60,000	
Bills payable	16,000		Less: Sold during the year	<u>(20,000)</u>	
Outstanding salary	10,000		Add: Addition during the year	<u>28,000</u>	
				68,000	
			Less : Depreciation	<u>(6,800)</u>	61,200
			Motor car (at cost)	80,000	
			Less: Depreciation	<u>(16,000)</u>	64,000
			Stock in trade		40,000
			Sundry debtors	2,52,000	
			Less: Provision for doubtful debts @ 2%	<u>(5,040)</u>	2,46,960
			Bills receivable		28,000
			Cash in hand and at bank		1,04,000
		8,68,160			8,68,160

(4 Marks)

Working Notes:**Sundry Debtors Account**

	Rs.		Rs.
To Balance b/d	1,60,000	By Cash/Bank A/c	2,00,000
To Sales A/c	3,20,000	By Bills receivable A/c	20,000
		By Bad debts A/c	8,000
		By Balance c/d (balancing fig.)	2,52,000
	4,80,000		4,80,000

(1 Mark)

Sundry Creditors Account

	Rs.		Rs.
To Cash/Bank A/c	1,84,000	By Balance b/d	1,20,000
To Bills payable A/c	16,000	By Purchases A/c	1,92,000
To Balance c/d (balancing figure)	1,12,000		
	3,12,000		3,12,000

(1 Mark)

Bills Receivable Account

	Rs.		Rs.
To Balance b/d	32,000	By Cash/ Bank A/c	24,000
To Sundry debtors A/c	20,000	(balancing figure)	
		By Balance c/d	28,000
	52,000		52,000

Bills Payable Account

	Rs.		Rs.
To Cash/Bank A/c	28,000	By Balance b/d	28,000
(balancing figure)		By Sundry creditors A/c	16,000
To Balance c/d	16,000		
	44,000		44,000

Furniture Account

	Rs.		Rs.
To Balance b/d	60,000	By Bank/Cash A/c	8,000
To Bank A/c	28,000	By Depreciation A/c	1,000
		By Profit and loss A/c (loss on sale)	11,000
		By Depreciation A/c	6,800
		By Balance c/d	61,200
	88,000		88,000

Cash/Bank Account

	Rs.		Rs.
To Balance b/d	1,80,000	By Misc. trade expenses A/c	80,000
To Miscellaneous receipts A/c	20,000	By Purchases A/c	48,000
		By Furniture A/c (balancing figure)	28,000
To Sundry debtors A/c	2,00,000	By Sundry creditors A/c	1,84,000
To Sales A/c	80,000	By Bills payable A/c	28,000
To Furniture A/c (sale)	8,000	By Building A/c	40,000
To Bills receivable A/c	24,000	By Balance c/d	1,04,000
	5,12,000		5,12,000

(1 Mark)

**Opening Balance Sheet of Mr. Shivkumar
as on 31st March, 2010**

Liabilities	Rs.	Assets	Rs.
Capital (balancing figure)	7,16,000	Building	3,20,000
Profit and loss A/c	40,000	Furniture	60,000
Sundry creditors	1,20,000	Motor car	80,000
Bills payable	28,000	Stock in trade	80,000
Outstanding salary	8,000	Sundry debtors	1,60,000
		Bills receivable	32,000
		Cash in hand and at bank	1,80,000
	9,12,000		9,12,000

(2 Marks)

Answer-3 :

**Statement showing the calculation of Profits for the pre-incorporation and post incorporation periods
For the year ended 31st March, 2014**

Particulars	Total Amount	Basis of Allocation	Pre- incorporation	Post- incorporation
Gross Profit	3,90,800	Sales	39,080	3,51,720
Less: Directors' fee	30,000	Post		30,000
Bad debts	7,200	Sales	720	6,480
Advertising	24,000	Time	6,000	18,000
Salaries & general expenses	1,28,000	Time	32,000	96,000
Preliminary expenses	10,000	Post		10,000
Donation to Political Party	<u>10,000</u>	Post		<u>10,000</u>
Net Profit				1,81,240
Pre-incorporation profit transfer to Capital Reserve		360		

(4 Marks)

Working Notes:

1. Sales ratio

Particulars	Rs.
Sales for period up to 30.06.2013 (4,80,000 * 3/6)	2,40,000
Sales for period from 01.07.2013 to 31.03.2014 (24,00,000 – 2,40,000)	21,60,000

Thus, Sales Ratio = 1 : 9

(1 Mark)

2. Time ratio

1st April, 2013 to 30 June, 2013: 1st July, 2013 to 31st March, 2014
= 3 months: 9 months = 1: 3

Thus, Time Ratio is 1: 3

(1 Mark)

Answer-4 :

**Statement showing calculation of profits for pre and post incorporation periods
for the year ended 31.3.2014**

Particulars	Pre-incorporation Period Rs.	Post-incorporation period Rs.
Gross profit (1:3)	80,000	2,40,000
Less: Salaries (1:2)	16,000	32,000
Stationery (1:2)	1,600	3,200

Advertisement (1:3)	4,000	12,000
Travelling expenses (W.N.3)	4,000	8,000
Sales promotion expenses (W.N.3)	1,200	3,600
Misc. trade expenses (1:2)	12,600	25,200
Rent (office building) (W.N.2)	8,000	18,400
Electricity charges (1:2)	1,400	2,800
Director's fee	-	11,200
Bad debts (1:3)	800	2,400
Selling agents commission (1:3)	4,000	12,000
Audit fee (1:3)	1,500	4,500
Debenture interest	-	3,000
Interest paid to vendor (2:1) (W.N.4)	2,800	1,400
Selling expenses (1:3)	6,300	18,900
Depreciation on fixed assets (W.N.5)	3,000	6,600
Capital reserve (Bal.Fig.)	12,800	-
Net profit (Bal.Fig.)	-	74,800

(4 Marks)

Working Notes:

1. Time Ratio

Pre incorporation period = 1st April, 2013 to 31st July, 2013
i.e. 4 months

Post incorporation period is 8 months

Time ratio is 1: 2.

2. Sales ratio

Let the monthly sales for first 6 months (i.e. from 1.4.2013 to 30.09.13) be = x

Then, sales for 6 months = 6x

Monthly sales for next 6 months (i.e. from 1.10.13 to 31.3.2014) = $x + \frac{2}{3}x = \frac{5}{3}x$

Then, sales for next 6 months = $\frac{5}{3} \times 6 = 10x$

Total sales for the year = $6x + 10x = 16x$

Monthly sales in the pre incorporation period = Rs. 19,20,000/16 = Rs. 1,20,000

Total sales for pre-incorporation period = Rs. 1,20,000 x 4 = Rs. 4,80,000

Total sales for post incorporation period = Rs. 19,20,000 – Rs. 4,80,000 = Rs. 14,40,000

Sales Ratio = 4,80,000 : 14,40,000 = 1 : 3

(1 Mark)

3. Rent

Rent for pre-incorporation period (Rs. 2,000 x 4)

Rs.
8,000 (pre)

Rent for post incorporation period

August, 2013 & September, 2013 (Rs. 2,000 x 2)

4,000

October, 2013 to March, 2014 (Rs. 2,400 x 6)

14,400

18,400 (post)

(1 Mark)

4. Travelling expenses and sales promotion expenses

Traveling expenses Rs. 12,000 (i.e. Rs. 16,800- Rs. 4,800)
distributed in 1:2 ratio

Pre Rs.

Post Rs.

4,000

8,000

Sales promotion expenses Rs. 4,800 distributed in 1:3 ratio

1,200

3,600

5. Interest paid to vendor till 30th September, 2013

Pre Rs.

Post Rs.

Interest for pre-incorporation period $\left(\frac{\text{Rs.4,200}}{6} \times 4 \right)$

2,800

Interest for post incorporation period i.e. for

August, 2013 & September, 2013 = $\left(\frac{\text{Rs.4,200}}{6} \times 2 \right)$

1,400

(1 Mark)

6. Depreciation

	Pre Rs.	Post Rs.
Total depreciation	9,600	
Less: Depreciation exclusively for post incorporation period	<u>600</u>	600
	<u>9,000</u>	
Depreciation for pre-incorporation period $\left[9,000 \times \frac{4}{12} \right]$	3,000	
Depreciation for post incorporation period $\left[9,000 \times \frac{8}{12} \right]$		6,000
	3,000	6,600

(1 Mark)

Answer-5 :

**In the books of Puri
Suri in Account Current with Puri
(Interest to 31st March, 2011 @ 10% p.a.)**

Date	Particulars	Due Date	Amount Rs.	Days	Products	Date	Particulars	Due Date	Amount Rs.	Days	Products
2011						2011					
Jan.1	To Balance b/d	Jan.1	2,500	90	2,25,000	Jan.24	By B/R	April 27	2,500	(27)	(67,500)
Jan.11	To Sales	Jan.11	3,000	79	2,37,000	Feb.1	By Purchases	Feb.1	5,00	58	2,90,000
Feb.4	To Sales	Feb.4	4,100	55	2,25,500	Feb.7	By Sales Returns	Fe.7	500	52	26,000
Mar.18	To Sales	Mar.18	4,600	13	59,800	Mar.1	By Purchases	Mar.1	2,800	30	84,000
Mar.31	To Interest		209			Mar.23	By Purchases	Mar.23	2,000	8	16,000
						Mar.31	By Balance of products				3,98,800
						Mar.31	By Bank		1,509		
	Total		14,309		7,47,300				14,309		7,47,300

Calculation of Interest :

$$\text{Interest} = \frac{3,98,800}{365} \times \frac{10}{100} = \text{Rs.}109$$

(4 Marks)

Answer-6 :

**In General Ledger
Debtors Ledger Adjustment Account**

		Rs.			Cr. Rs.
Dr.					
2011			2011		
Jan. 1	To Balance b/d	50,000	Mar.31	By General ledger adjustment account:	
Mar. 31	To General ledger adjustment account:			Collection cash and bank (70% of the Rs.1,96,000)	1,37,200
	Sales	1,46,000		Discount	20,000
	$[(100/120) \times (1,80,000-4,800)]$			Bills receivable	30,000
	Creditors-bill			Bad debts (6,000+2,000)	8,000
	Receivable dishonoured	6,000		By Balance c/d	14,800
	Bank cheques dishonoured	8,000			
		2,10,000			2,10,000

(4 Marks)

Answer-7 :

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

	Rs.		Rs.
To Balance b/d (bal.fig.)	49,500	By General ledger adjustment	
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)