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SUGGESTED SOLUTION
IPCC NOVEMBER 2016 EXAM

ACCOUNTING

Test Code - I N J 1 0 2 5

BRANCH - (MUMBAI) (Date : 31.07.2016)

Head Office : Shraddha, 3rd Floor, Near Chinai College, Andheri (E), Mumbai – 69.

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Answer-1 :

Ring Ltd.
Profit and Loss Statement for the year ended 31st March, 2015

Particulars	Note No.	(Rs. In lacs)
I Revenue from operations		10,40,000
II Other income		24,000
III Total Revenue [I + II]		10,64,000
IV Expenses:		
Cost of purchase [4,20,000+ 1,60,000]		5,80,000
Changes in inventories [20,000-1,80,000]		(1,60,000)
Employee Benefits Expense		1,20,000
Finance Costs		56,000
Depreciation and Amortization Expenses		40,000
Other Expenses	8	1,24,000
Total Expenses		<u>7,60,000</u>
V Profit before Tax (III-IV)		3,04,000
VI Tax Expenses @ 30%		(91,200)
VII Profit for the period		2,12,800

(4 Marks)

Balance Sheet of Ring Ltd. as at 31ST March, 2015

Particulars	Note No.	Rs.
I EQUITY AND LIABILITIES		
(1) Shareholders' Funds		
(a) Share Capital	1	4,00,000
(b) Reserves and Surplus	2	2,22,442
(2) Non-Current Liabilities		
(a) Long-term Borrowings (Debentures)		4,00,000
(3) Current Liabilities		
(a) Trade Payable (Sundry Creditors)		1,84,000
(b) Other Current Liabilities	3	42,000
(c) Short-Term Provisions	4	<u>2,11,558</u>
Total		14,60,000
II ASSETS		
(1) Non-Current Assets		
(a) Fixed Assets		
(i) Tangible Assets	5	5,70,000
(b) Non-current Investments		2,40,000
(2) Current Assets		
(a) Inventories	6	2,26,000
(b) Trade Receivables	7	2,40,000
(c) Cash and Cash equivalents		60,000
(d) Short Term Loans and Advances (Advance Payment of Tax)		1,20,000
(e) Other Current Assets (Interest accrued on investments)		<u>4,000</u>
Total		14,60,000

(4 Marks)

Note: There is a Contingent Liability for bills discounted but not yet matured amounting Rs. 20,000.

Notes to Accounts:

1. Share Capital		
Authorized Capital		
10,000 Equity Shares of Rs. 100 each		<u>10,00,000</u>
Issued Capital		
4,000 Equity Shares of Rs. 100 each		<u>4,00,000</u>
Subscribed Capital and fully paid		
4,000 Equity Shares of Rs. 100 each		<u>4,00,000</u>
		<u>4,00,000</u>
		(1 Mark)
2. Reserve and Surplus		
General Reserve [Rs. 80,000 + Rs. 21,280]		1,01,280
Balance of Statement of Profit & Loss Account		
Opening Balance	50,000	
Add: Profit for the period	<u>2,12,800</u>	
	2,62,800	
Appropriations		
Transfer to General Reserve @ 10%	(21,280)	
Proposed Equity Dividend [25% of Rs. 4,00,000]	(1,00,000)	
Dividend Distribution Tax (W. N.1)	<u>(20,358)</u>	
		<u>1,21,162</u>
		<u>2,22,442</u>
		(1 Mark)
3. Other Current Liabilities		
Unclaimed Dividend		10,000
Outstanding Expenses		4,000
Interest accrued on Debentures		<u>28,000</u>
		<u>42,000</u>
		(1 Mark)
4. Short-Term Provision		
Provision for Tax		91,200
Proposed Equity Dividend		1,00,000
Dividend Distribution Tax		<u>20,358</u>
		<u>2,11,558</u>
		(1 Mark)
5. Tangible Assets		
Buildings	5,80,000	
Less: Provision for Depreciation	<u>1,00,000</u>	4,80,000
Plant and Equipment	2,00,000	
Less: Provision for Depreciation	<u>1,10,000</u>	<u>90,000</u>
		<u>5,70,000</u>
		(1 Mark)
6. Inventories		
Closing Stock of Finished Goods	1,80,000	
Loose Tools	<u>46,000</u>	2,26,000
		(0.5 Mark)
7. Trade Receivables		
Sundry Debtors	2,50,000	
Less: Provision for Doubtful Debts	<u>(10,000)</u>	<u>2,40,000</u>
		(0.5 Mark)
8. Other Expenses		
Rent		52,000
Miscellaneous Expenses		36,000
Directors' Fees		20,000
Bad Debts		12,000
Provision for Doubtful Debts (4% of Rs. 2,50,000 less Rs. 6,000)		<u>4,000</u>
		<u>1,24,000</u>
		(1 Mark)

Working Note
Calculation of Dividend distribution tax

Particulars	Rs.
(i) <u>Grossing-up of dividend</u>	
Dividend distributed by Ring Ltd. 25% of 4,00,000	1,00,000
Add: Increase for the purpose of grossing up of dividend [1,00,000 x (15/(100-15))]	17,647
Gross dividend	1,17,647
(ii) Dividend distribution tax @ 17.304% of Rs. 1,17,647	20,358

(1 Mark)

Answer-2 :

- (a) Sales of first 6 months = Rs. 4,80,000. Average sale of first 6 months = Rs. 4,80,000/6 = Rs. 80,000 per month. Pre-incorporation period consist of 3 months (i.e., April, May and June). The sales of those 3 months = Rs. 80,000 x 3 = Rs. 2,40,000. Sales of remaining 9 months = Rs. 24,00,000 – Rs. 2,40,000 = Rs. 21,60,000.
 Therefore, the ratio of sales = Rs. 2,40,000 : Rs. 21,60,000 or 1 : 9.

(1 Mark)

- (b) Let the average of monthly sales = X. The sales of different months can be shown as follows:

Month	Jan	Feb	Mar.	April	May	June	July	Aug	Sept	Oct	Nov	Dec
Sales	1x	0.5x	1x	0.5x	1x	1x	1x	1x	1x	1x	1.5x	1.5x

Date of incorporation is May, 2015

Pre incorporation period is from January to April i.e. 3 x

Post - incorporation period is from May to December i.e 9x

The ratio of Sales = 3x : 9x or 1:3.

(1.5 Marks)

- (c) Let the average monthly sales be x. The sales of different months can be shown as follows:

Month	April	May	June	July	Aug.	Sept	Oct	Nov	Dec	Jan	Feb	Mar
Sales	2x	1x	1x	1x	1x	1x	1x	1x	1x	1x	2x	2x

Date of incorporation is 1 July, 2015

Pre incorporation period is from April to June i.e. 4 x

Post - incorporation period is from July to March i.e 11x

The ratio of Sales = 4x : 11x or 4:11

(1.5 Marks)

Answer-3 (a) :

Calculation of Average Due Date taking base date as 19.06.2011

Date of Bill	Period	Maturity date	No. of days from the base date	Amount (Rs.)	Products
09.03.2011	4 months	12.07.2011	23	4,000	92,000
16.03.2011	3 months	19.06.2011	0	5,000	0
07.04.2011	5 months	10.09.2011	83	6,000	4,98,000
18.05.2011	3 months	21.08.2011	63	5,000	3,15,000
				20,000	9,05,000

(1 Mark)

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

$$= 19.06.2011 + \frac{9,05,000}{20,000} = 19.06.2011 + 46 \text{ days} = 4\text{th August, 2011.}$$

(1 Mark)

Computation of date of payment to earn interest of Rs. 150

$$\text{Interest per day} = [\text{Rs. } 20,000 \times (18/100)] / 365 \text{ days}$$

$$= \text{Rs. } 3,600/365 = \text{Rs. } 10 \text{ per day (approx.)}$$

To earn interest of Rs. 150, the payment should be made 15 days (Rs. 150 / Rs. 10 per day) earlier to the due date. Accordingly, the date of payment would be:

$$\text{Date of payment to earn interest of Rs. 150} = 4\text{th August, 2011} - 15 \text{ days} = 20\text{th July, 2011.}$$

(2 Marks)

Answer-3 (b) :

Date	Due Date	Particulars	No. of days till 31.3.11	Amount	Product	Date	Due Date	Particulars	No. of days till 31.3.11	Amount	Product
2010	2010			Rs.	Rs.	2010	2010			Rs.	Rs.
Oct.1	Oct.1	To Balance b/d	182	3,000	5,46,000	Nov.16	Nov.26	By Purchases	125	4,000	5,00,000
Oct.18	Oct.18	To Sales	164	2,500	4,10,000	Dec.7	Dec.17	By Purchases	104	3,500	3,64,000
2011	2011					2011	2011				
Jan.3	Apr.6	To Bills payable	(6)	5,000	(30,000)	Mar.28	Apr.8	By Purchases	(8)	2,700	(21,600)
Feb.4	Feb.4	To Cash	55	1,000	55,000	Mar.31	Mar.31	By Balance of product			1,81,600
Mar.21	Mar.21	To Sales	10	4,300	43,000			By Balance c/d		5,650	
Mar.31	Mar.31	To Interest		50	-						
				15,850	10,24,000					15,850	10,24,000

Interest for the period = $\frac{1,81,600 \times 10 \times 1}{100 \times 365} = \text{Rs.}50$ (approx.) **(6 Marks)**

Answer-4 :

			Rs,			Rs.
01.04.2010	To Balance b/d		1,41,880	01.04.2010	By Balance b/d	2,240
31.03.2011	To General Ledger adjustment A/c. in sales ledger :			31.03.2011	By General ledger adjustment A/c. in Sales ledger :	
	Credit Sales	7,28,000			Cash	6,24,000
	Cash paid	1,840			Discount allowed	11,200
	Bills receivable dishonoured	<u>6,000</u>	7,35,840		Transfer to bought ledger	20,800
	To Balance c/d		13,720		Bills receivable received	40,000
					Sales return	<u>10,000</u>
					By Balance c/d	7,06,000
			8,91,440			1,83,200
						8,91,440

(6 Marks)**Answer-5 :**

**Income and Expenditure Account
for the year ended 31st March, 2015**

	Rs.	Rs.	
To Medicines consumed		By Prescription fees	3,30,000
Purchases	1,22,500	By Visiting fees	1,25,000
Less: Closing Stock	<u>(47,500)</u>	By Fees from lectures	12,000
To Motor car expense (60,000 x 2/3)	40,000		
To Salaries (Rs. 52,500 – Rs. 15,000)	37,500		
To Rent for clinic	30,000		
To General charges	24,500		
To Interest on loan	18,000		
To Excess of Income over expenditure	2,42,000		
	4,67,000		4,67,000

(3 Marks)

**Capital Account
for the year ended 31st March, 2015**

	Rs.		Rs.
To Drawings:		By Cash/bank	1,00,000
Motor car expenses	20,000	By Cash/bank (pension)	1,50,000
Household expenses	90,000	By Net income from practice	2,42,000
Marriage expenses	1,07,500	(derived from income	
To Salary of domestic servants	15,000	and expenditure a/c)	
To Household furniture	12,500		
To Balance c/d	2,47,000		
	4,92,000		4,92,000

(3 Marks)

Balance Sheet as on 31st March, 2015

Liabilities	Rs.	Assets	Rs.
Capital	2,47,000	Motor car	1,60,000
Loan	1,50,000	Surgical equipment	1,25,000
		Stock of medicines	47,500
		Cash at bank	55,000
		Cash in hand	9,500
	3,97,000		3,97,000

(4 Marks)

Answer-6 :

**In General Ledger
Debtors Ledger Adjustment Account**

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

(4 Marks)