SUGGESTED SOLUTION

IPCC NOVEMBER 2016 EXAM

ACCOUNTS

Test Code - I N J 1 0 4 3

BRANCH - (MUMBAI) (Date : 05.06.2016)

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Answer-1 (a) :

As per para 13 of AS 2 (Revised), abnormal amounts of wasted materials, labour and other production costs are excluded from cost of inventories and such costs are recognized as expenses in the period in which they are incurred.

In this case, normal waste is 250 MT and abnormal waste is 50 MT. The cost of 250 MT will be included in determining the cost of inventories (finished goods) at the year end. The cost of abnormal waste (50 MT x 1,052.6315 = Rs. 52,632) will be charged to the profit and loss statement.

Cost per MT (Normal Quantity of 4,750 MT) = 50,00,000 / 4,750 = Rs. 1,052.6315

Total value of inventory = 4,700 MT x Rs. 1,052.6315 = Rs. 49,47,368.

(2 Marks)

Answer-1 (b) :

As per AS 6 'Depreciation Accounting', depreciable assets are the assets which

(i) are expected to be used during more than one accounting period; and

(ii) have a limited useful life; and

(iii) are held by an enterprise for use in the production or supply of goods and services, for rental to others, or for administrative purposes and not for the purpose of sale in the ordinary course of business.

AS 6 does not apply to 'land' as land is considered to have unlimited useful life. Therefore, it is not appropriate to charge depreciation on land.

(2 Marks)

Answer-1 (c) :

	Rs. in crores
Cost of construction incurred till date	1.80
Add: Estimated future cost	1.40
Total estimated cost of construction	3.20

Percentage of completion till date to total estimated cost of construction

= (1.80/3.20)×100 = 56.25%

Proportion of total contract value recognised as revenue as per AS 7 (Revised)

= Contract price x percentage of completion

= Rs. 3 crores x 56.25% = Rs. 1.6875 crores

Amount of foreseeable loss	**(Rs. in crores)**
Total cost of construction	3.20
Less: Total contract price	(3.00)
Total foreseeable loss to be recognized as expense	0.20
According to of AS 7 (Revised 2002), when it is probable that total contract costs will exceed total contract revenue, the expected loss should be recognized as an expense immediately.	

(3 Marks)

Answer-1 (d) :

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.

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.

(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.

(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.

(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.

(3 Marks)

Answer-2 :

DOW Books Ltd.

Statement of Profit and Loss for the year ended 31st March, 2015

Particulars	Notes	Amount
Gross profit from operations		1,75,000
Other income		425
Total revenue		**1,75,425**
Expenses:		
Employee benefits expense	12	7,723
Other operating expenses	13	43,600
Selling and administrative expenses	14	4,250
Finance costs	15	3,410
Depreciation and amortization expense	16	7,605
Other expenses	17	100
Total expenses		**66,688**
Profit before tax		1,08,737
Provision for tax		65,000
Short Provision for Income tax in the previous year*		5,000
Profit (Loss) for the period		**38,737**

*The excess tax liability is to be considered as change in accounting estimate and the effect of such change should be included in the determination of net profit or loss of the affected period, in accordance with para 23 of AS 5 (Revised).

(3 Marks)

Note on Remuneration to Managing Director:	**Rs.**
Profit as disclosed	43,737
Add :Provision for Taxation	65,000
Managing Director's Remuneration	5,723
Profit before calculating the Remuneration	1,14,460
Remuneration @ 5%	5,723

Balance Sheet of DOW Books Ltd., as at 31st March, 2015

Particulars				Note No	Rs.
Equity and Liabilities					
1	**Shareholders' funds**				
	a	Share capital		1	92,000.00
	b	Reserves and Surplus		2	33,450.00
2	**Non-current liabilities**				
	a	Long-term borrowings		3	80,000 .00
3	**Current liabilities**				
	a	Trade Payables		4	32,100.00
	b	Other current liabilities		5	15, 508.00
	c	Short-term provisions		6	78,287.00
		Total			**3,31,345.00**
Assets					
1	**Non-current assets**				
	a	Fixed assets			
		i	Tangible assets	7	1,29,695.00
	b	Non-current investments		8	1,000 .00
2	**Current assets**				
	a	Inventories			95,000.00
	b	Trade receivables		9	79,000 .00
	c	Cash and cash equivalents		10	16,400 .00
	d	Short-term loans and advances		11	10,250.00
		Total			**3,31,345.00**

Note : There is contingent liability for calls that may be made on partly paid shares, Rs.1,000 and for Bills under discount, Rs. 1,500.

(5 Marks)

Notes to accounts

			Rs.
1	**Share Capital**		
	Equity share capital		
	Issued & subscribed & paid up		
	9,200 Equity Shares of Rs. 10 each fully paid		92,000
	Total		**92,000**
2	**Reserves and Surplus**		
	Capital reserve		1,000
	General reserve (proposed transfer)		20,000
	Surplus (Profit & Loss A/c)	38,737	
	Add: Balance from previous year	7,000	
		45,737	
	Appropriations		
	Proposed Dividend	(11,040)	
	Dividend Distribution tax (W.N.1)	(2,247)	
	Transfer to General Reserve (proposed)	(20,000)	12,450
	Total		**33,450**
3	**Long-term borrowings**		
	Secured		
	Loan from bank (secured against stock)		50,000
	Unsecured		
	9% Debentures		30,000
	Total		**80,000**
4	**Trade Payables**		
	Trade payables		29,000
	Bills Payable		3,100
	Total		**32,100**
5	**Other current liabilities**		
	Interest due on bank loan		710
	Interest accrued on debentures		675
	Liability for expenses		12,000
	Managerial Remuneration (5,723 – 3,600)		2,123
	Total		**15,508**
6	**Short-term provisions**		
	Provision for taxation		65,000
	Proposed Dividend		11,040
	Dividend Distribution tax		2,247
	Total		**78,287**
7	**Tangible assets**		
	Land		30,000
	Building	1,00,000	
	Less: Depreciation	(26,875)	73,125
	Furniture	9,000	
	Less: Disposed off	(800)	
	Add: Addition during the year	3,200	
	Less: Depreciation	(4,830)	6,570
	Motor Car	35,000	
	Less: Depreciation	(15,000)	20,000
	Total		**1,29,695**
8	**Non-current investments**		
	Other investments		

	Partly paid shares		1,000
	Total		**1,000**
9	**Trade receivables**		
	Unsecured but considered good		
	More than 6 months	10,000	
	Others	65,000	75,000
	Bills Receivable		4,000
	Total		**79,000**
10	**Cash and cash equivalents**		
	Cash at bank		12,600
	Cash in hand		3,800
	Total		**16,400**
11	**Short-term loans and advances**		
	Deposits		8,350
	Advertisement material on hand		1,500
	Security Deposit		400
	Total		**10,250**
12	**Employee benefits expense**		
	Managing Director's Remuneration		5,723
	Directors' Fees		2,000
	Total		**7,723**
13	**Other operating expenses**		
	Establishment Expenses		35,200
	Repairs, Renewals		2,600
	Motor Car Expenses		4,200
	Travelling & Conveyance		1,600
	Total		**43,600**
14	**Selling and administrative expenses**		
	Sales Commission		3,200
	Advertisement		2,000
	Printing & Stationery		900
	Telephone		1,350
	Cost of furniture (to be capitalized)		(3,200)
	Total		**4,250**
15	**Finance costs**		
	Debenture Interest		2,700
	Bank Interest		710
	Total		**3,410**
16	**Depreciation and amortization expense**		
	Buildings		1,875
	Furniture & Fittings		730
	Motor Car		5,000
	Total		**7,605**
17	**Other expenses**		
	Loss on sale of furniture		100
	Total		**100**

(5 Marks)

Working Notes:

1. Calculation of Dividend distribution tax

	Rs.
(i) Grossing-up of dividend:	11,040
Dividend distributed by DOW Books Ltd.	
Add: Increase for the purpose of grossing up of dividend	
$\left[\frac{15}{100-15} \text{ x } 11{,}040\right]$	1,948
Gross dividend	12,988

(ii) Dividend distribution tax @ 17.304% of 12,988	2,247

(1 Mark)

2. Rs.710, interest due to Bank, may also be adjusted against the bank balance, especially when the Bank is entitled to debit to company's accounts under the Loan Agreement.
3. The wrong credit given by the Bank, subsequently adjusted, is only an item for the Bank Reconciliation Statement.
4. The Share Suspense Account has a balance of Rs.1,000 after adjustment of the amount in arrears. It has to be credited to Capital Reserve.
5. Rs.150 out of OYT deposit has to be treated as telephone charges.
6. Previous year's figures have not been given since these are not available. Statistical information required to be disclosed under Schedule III has also not been given for the same reason.

Answer-3 :

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

(4 Marks)

Answer-4 :

Corrected Receipts and Payments Account of Trustwell Club
for the year ended 31st March, 2011

Receipts	**Rs.**	**Amount Rs.**	**Payments**	**Amount Rs.**
To Balance b/d		450	By Expenses (Rs. 6,300-Rs. 2,700)	3,600
To Subscription Annual income	4,590			
Less: receivable as on 31.3.2011	(270)		By Sports material	2,700
Add: Advance received for the year 2011-2012	90		By Balance c/d (cash in	
Add: Receivable as on 31.3.2010	180		hand and at bank)	90,720
Less: Advance received as on 31.3.2010	(90)	4,500		
To Other fees		1,800		
To Donation for building		90,000		
To Sale of furniture		270		
		97,020		**97,020**

(3 Marks)

Income and Expenditure Account of Trustwell club for the year ended 31st March, 2011

Expenditure		Amount	Income	Amount
To Sundry expenses		3,600	By Subscription	4,590
To Sports material			By Other fees	1,800
Balance as on 1.4.2010	6,660		By Interest on investment	1,350
Add: Purchases	2,700		(5% on Rs. 27,000)	
Less: Balance as on 31.3.2011	(1,800)	7,560	By Deficit: Excess of	
To Loss on sale of furniture		180	expenditure over income	3,600
		11,340		**11,340**

(2 Marks)

Balance sheet of Trustwell club as on 31st March, 2011

Liabilities		Amount (Rs.)	Assets		Amount (Rs.)
Capital fund	36,000		Furniture	1,800	
Less: Excess of expenditure			Less: Sold	(450)	1,350
over income	(3,600)	32,400	5% Investment		27,000
			Interest accrued on investment		1,350
Building fund		90,000	Sports material		1,800
Subscription			Subscription receivable		270
received in advance		90	Cash in hand and at bank		90,720
		1,22,490			**1,22,490**

(1.5 Marks)

Balance Sheet of Trustwell Club as on 1st April, 2010

Liabilities	Amount Rs.	Assets	Amount Rs.
Subscription received in advance	90	Furniture	1,800
Capital Fund (balancing figure)	36,000	Investment	27,000
		Sports material	6,660
		Subscription receivable	180
		Cash in hand and at bank	450
	36,090		**36,090**

(1.5 Marks)

Answer-5 :

Calculation of Average Due Date

Taking 6th January, 2015 as base date

For Green's payments

Due date 2015	Amount Rs.	No. of days from the base date i.e. 6th Jan. 2015	Product

6th January	6,000	0	0
2nd February	2,800	27	75,600
31st March	2,000	84	1,68,000
Total	**10,800**		**2,43,600**
For Red's payment 2015			
6th January	6,600	0	0
9th March	2,400	62	1,48,800
20th March	500	73	36,500
Total	**9,500**		**1,85,300**

(4 Marks)

Excess of Green's products over Red's =Rs. 2,43,600 – Rs. 1,85,300 = Rs. 58,300
=Rs. 10,800 – Rs. 9,500 =Rs. 1,300

Number of days from the base date to the date of settlement is 58,300/1,300=45 days (approx.)

Hence, the date of settlement of the balance amount is 45 days after 6th January i.e. on 20th February.

On 20th February, 2015, Green has to pay Red Rs. 1,300 to settle the account.

(2 Marks)

Answer-6 :

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)			
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)			
Bank A/c	Dr.	12,50,000	
To Equity Share Capital A/c			12,50,000
(Being new shares allotted at Rs. 40 each)			
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)			
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)			
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)			
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)			
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)			
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)			
Outstanding expenses A/c	Dr.	10,60,000	
To Bank A/c			10,60,000
(Being outstanding expenses paid in cash)			
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)			
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)			

(8 Marks)