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SUGGESTED SOLUTION

IPCC NOVEMBER 2016 EXAM

ACCOUNTS

Test Code - I N J1 0 5 9

BRANCH - (MUMBAI) (Date :12.06.2016)

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Answer-1 :

(i) Depreciation to be charged to the Profit and Loss Account

	(Rs.)
Depreciation on old Machinery [20% on Rs.6,32,000 for 3 months(01.4.13 to 30.6.13)]	31,600
Add: Depreciation machinery acquired on 01.06.2013 (Rs. 1,20,000 x 20% x 10/12)	20,000
Depreciation on Machinery after adjustment of exchange [20% of Rs.(6,32,000 -1,89,000+2,56,000) for 9 months]	1,04,850
Total Depreciation to be charged to Profit and Loss A/c	1,56,450

(2 Marks)

(ii) Book Value of Plant and Machinery as on 31.03.2014

	Rs.	**Rs.**
Balance as per books on 01.04.2013		6,32,000
Add: Included in purchases on 01.06.2013	1,20,000	
Add: Purchase on 30.06.2013	2,56,000	3,76,000
		10,08,000
Less: Book value of Machine sold on 30.06.2013		(1,89,000)
		8,19,000
Less: Depreciation on machinery in use (1,56,450 - 9,450)		(1,47,000)
Book Value as on 31.03.2014		6,72,000

(2 Marks)

(iii) Loss on exchange of Machinery

Book value of machinery as on 01.04.2013	1,89,000
Less: Depreciation for 3 months	9,450
WDV as on 30.06.2013	1,79,550
Less: Exchange value	1,75,000
Loss on exchange of machinery	4,550

(2 Marks)

Answer-2 :

(a) Journal Entries in the books of M/s. Cube Ltd.

	Particulars		**Debit (Rs. inlakhs)**	**Credit (Rs. inlakhs)**
(i)	8% Preference share capital A/c (Rs. 100 each)	Dr.	200	
	To 8% Preference share capital A/c (Rs. 80 each)			160
	To Capital Reduction A/c			40
	(Being the preference shares of Rs.100 each reduced to Rs.80 each as per the approved scheme)			
(ii)	Equity share capital A/c (Rs. 10 each)	Dr.	500	
	To Equity share capital A/c (Rs. 2 each)			100
	To Capital Reduction A/c			400
	(Being the equity shares of Rs.10 each reduced to Rs.2 each)			
(iii)	Capital Reduction A/c	Dr.	16	
	To Equity share capital A/c (Rs. 2 each)			16
	(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)			
(iv)	6% Debentures A/c	Dr.	150	
	To Freehold property A/c			150
	(Being claim of Debenture holders settled in part by transfer of freehold property)			

(v)	Accrued debenture interest A/c	Dr.	12	
	To Bank A/c			12
	(Being accrued debenture interest paid)			
(vi)	Freehold property A/c	Dr.	75	
	To Capital Reduction A/c			75
	(Being appreciation in the value of freehold property)			
(vii)	Bank A/c	Dr.	125	
	To Investments A/c			100
	To Capital Reduction A/c			25
	(Being investment sold at profit)			
(viii)	Director's loan A/c	Dr.	150	
	To Equity share capital A/c (Rs. 2 each)			45
	To Capital Reduction A/c			105
	(Being director's loan waived by 70% and balance being discharged by issue of 22.5 lakhs equityshares of Rs.2 each)			
(ix)	Capital Reduction A/c	Dr.	483	
	To Profit and loss A/c			261
	To Trade receivables A/c (225 x 40%)			90
	To Inventories-in-trade A/c (150 x 80%)			120
	To Bank A/c (300 x 5%)			15
	(Being certain value of various assets, penalty on cancellation of contract, profit and loss account debit balance written off through Capital ReductionAccount)			
(x)	Capital Reduction A/c	Dr.	143	
	To Capital reserve A/c			143
	(Being balance transferred to capital reserve account as per the scheme)			

(10 x 0.5 = 5 Marks)

(b) Capital Reduction Account

Dr.	**(Rs. inlakhs)**	**Cr.**	**(Rs. inlakhs)**
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**

(5 Marks)

(c) Notes to Balance Sheet

		(Rs. inlakhs)	**(Rs. inlakhs)**
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>

		520
Issued:		
80.5 lakhs equity shares of Rs. 2 each		161
2 lakhs Preference Shares of Rs. 80 each		160
		321

2. Tangible Assets

Freehold Property	275	
Less: Utilized to pay Debenture holders	(150)	
	125	
Add: Appreciation	75	200
Plant and Machinery		100
		300

(2 Marks)

Answer-3 (a) :

Statement showing calculation of profits for pre and post incorporation periodsfor 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

(5 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 = $\frac{5}{3}$x X 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

3. Rent

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

4. Travelling expenses and sales promotion expenses

	Pre Rs.	**Post Rs.**
Traveling expenses Rs. 12,000 (i.e. Rs. 16,800- Rs. 4,800) distributed in 1:2 ratio	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 $\left(\frac{\text{Rs.}4{,}200}{6} \text{ x } 4\right)$	2,800	
Interest for post incorporation period i.e. for August, 2013 & September, 2013 = $\left(\frac{\text{Rs.}4{,}200}{6} \text{ x } 2\right)$		1,400

6. Depreciation

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

(6 x 0.5 = 3 Marks)

Answer-3 (b) :

Siva in Account Current with Ram as on 31st Oct, 2014

		Rs.	**Days**	**Product Rs.**			**Rs.**	**Days**	**Product Rs.**
01.07.14	To Bal. B/d.	750	123	92,250	20.08.14	By Sales Returns	200	72	14,400
15.08.14	To Sales	1,250	77	96,250	22.09.14	By Bank	800	39	31,200
31.10.14	To Interest	18.48			15.10.14	By Cash	500	16	8,000
						By Balance of products			1,34,900
					31.10.14	By Bal. C/d.	518.48		
		2018.48		**1,88,500**			**2018.48**		**1,88,500**

(4 Marks)

Interest = Rs.1,34,900 x $\frac{5}{100} \text{x} \frac{1}{365} = \text{Rs.}18.48$

Answer-4 (a) :

In the books of Gupta Traders
General Ledger Adjustment A/c in the Sales Ledger

Date	Particulars	Amount Rs.	Date	Particulars	Amount Rs.
1 April, 2009 to 31st March, 2010	To Sales Ledger Adjustment A/c.(in General Ledger);		1 April, 09	By Balance b/d	1,37,250
	Returns inward	1,200	1 April 2009 to 31st March, 2010	By Sales Ledger Adjustment Account (in General Ledger):	
	Cash (received from debtors)	76,800		Sales	68,100
	Bills receivables	25,500		B/R dishonoured	3,600
	Bad Debts	7,500			
31st March 2010	To Balance c/d	97,950			
		2,08,950			**2,08,950**

(4 Marks)

Note : Returns outward and discount received would be shown in the General Ledger AdjustmentAccount of Purchases Ledger.

Answer-4 (b) :

In the books of Rajat
Investment Account
(Equity shares in P Ltd.)

Date	Particulars	No.of shares	Amount Rs.	Date	Particulars	No. of shares	Amount Rs.
01.04.11	To Balance b/d	50,000	7,50,000	31.03.12	By Balance c/d (Bal.fig.)	90,000	12,10,000
20.06.11	To Bank A/c.	10,000	1,60,000				
01.08.11	To Bonus Issue (W.N.1)	10,000	–				
05.11.11	To Bank A/.c.(right shares) (W.N.4)	20,000	3,00,000				
		90,000	**12,10,000**			**90,000**	**12,10,000**

(3 Marks)

Working Notes:

(1) Bonus shares = $\frac{50,000+10,000}{6} = 10,000$ shares

(2) Right shares = $\frac{50,000+10,000+10,000}{7}$ x 3 = 30,000 shares

(3) Sale of rights = 30,000 shares x $\frac{1}{3}$ x Rs.2= Rs. 20,000 to be credited to P & L A/c as perAS 13.

(4) Rights subscribed = 30,000 shares × $\frac{2}{3}$ x Rs.15 = Rs. 3,00,000

(1 Mark)

Answer-5 :

Statement of Affairs of 'Lokesh'
as on March 31, 2004

Liabilities	Rs.	Assets	Rs.
Creditors	32,940	Furniture, Fixtures & Fittings	22,500
Loan from brother	18,000	Stock (24,390 x 100/125)	19,512
Capital (Bal. fig.)	1,07,712	Debtors	11,025

		Cash-in-Hand and at Bank	15,615
		Building (House)	90,000
	1,58,652		**1,58,652**

(3 Marks)

Statement of Affairs of 'Lokesh' as on March 31, 2010

Liabilities	Rs.	Assets	Rs.
Creditors	37,800	Furniture, Fixtures & Fittings	40,500
Capital (Bal. fig.)	2,70,112	Stock (54,330 x 75%)	40,747
		Debtors	26,640
		Cash-in-Hand and at Bank	29,025
		Loan to Brother	13,500
		Building (House)	90,000
		Car	33,750
		Debentures in 'X Ltd.'	33,750
	3,07,912		**3,07,912**

(3 Marks)

Statement of Profit:

Particulars			Rs.
Capital as on March 31, 2010			2,70,112
Add: Drawings			
2004-05	13,500		
2005-06	18,000		
2006-07	27,000		
2007-08	31,500		
2008-09	31,500		
2009-10	31,500		1,53,000
			4,23,112
Add: Amount stolen in May, 2009			13,500
			4,36,612
Less: Opening Capital as on March 31, 2004			(1,07,712)
			3,28,900
Less: Profit as shown by I.T.O.			
For the year ending March 31, 2005		33,075	
For the year ending March 31, 2006		33,300	
For the year ending March 31, 2007		35,415	
For the year ending march 31, 2008		61,875	
For the year ending March 31, 2009		54,630	
For the year ending March 31, 2010		41,670	(2,59,965)
Understatement of Income			68,935

(6 Marks)

Note: In the absence of the information regarding depreciation in the question, nodepreciation has been provided on Building (house) and Car. The candidates mayassume any appropriate rate of depreciation and can provide depreciation.