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SUGGESTED SOLUTION
IPCC NOVEMBER 2016 EXAM
ADVANCED ACCOUNTS
Test Code - I N J 1 0 6 9
BRANCH - (MUMBAI) (Date : 19.06.2016)

Head Office : Shraddha, 3rd Floor, Near Chinai College, Andheri (E), Mumbai – 69.
Tel : (022) 26836666

Answer-1 :

Realisation Account

	Rs.		Rs.
To Plant and machinery	30,000	By Provision for doubtful debts	400
To Fixtures and fittings	2,000	By Loan on hypothecation of stock (W.N.3)	3,000
To Stock	10,400	By Creditors (W.N.2)	500
To Debtors	18,400	By Joint Life Policy A/c (W.N.4)	12,900
To Patents and Trademarks (W.N.5)	5,500	By Bank	
		Plant and machinery	17,000
To Bank	2,300	Fixtures and fittings	1,000
		Stock	9,000
		Debtors	16,500
		Patents and Trademarks	<u>2,000</u>
		By Partners' Capital Accounts	
		Read	2,800
		Write	1,400
		Add	<u>2,100</u>
			6,300
	68,600		68,600

(3 Marks)

Bank Account

	Rs.		Rs.
To Balance b/d	8,000	By Add's Capital A/c- drawings	5,300
To Joint Life Policy	15,500	By Loan on hypothecation of stock	3,200
To Realisation A/c	45,500	By Creditors	12,800
To Add's Capital A/c	5,400	By Realisation A/c (expenses)	2,300
		By Read's Loan A/c	15,000
		By Read's Capital A/c	27,200
		By Write's Capital A/c	8,600
	74,400		74,400

(2 Marks)

Partners' Capital Accounts

	Read Rs.	Write Rs.	Add Rs.		Read Rs.	Write Rs.	Add Rs.
To Bank			5,300	By Balance	30,000	10,000	2,000
To Realisation A/c.	2,800	1,400	2,100	By Bank A/c (bal.fig.)			5,400
To Bank (Bal.Fig.)	27,200	8,600	-				
	30,000	10,000	7,400		30,000	10,000	7,400

(2 Marks)

Working Notes:

1. Read's Loan Account

	Rs.		Rs.
To Bank A/c	15,000	By Balance b/d	15,000

15,000

15,000

(0.5 Mark)

2. Sundry Creditors Account

	Rs.		Rs.
To Patents and Trademarks A/c	4,500	By Balance b/d	17,800
To Realisation A/c	500		
To Bank A/c	12,800		
	17,800		17,800

(0.5 Mark)

3. Loan on Hypothecation of Stock Account

	Rs.		Rs.
To Realisation A/	c 3,000	By Balance b/d	6,200
To Bank A/c	3,200		
	6,200		6,200

(0.5 Mark)

4. Joint Life Policy Account

	Rs.		Rs.
To Balance b/d	15,000	By Joint Life Policy Reserve A/c	12,400
To Realisation A/c	12,900	By Bank A/c (10,200 + 5,300)	15,500
	27,900		27,900

(0.5 Mark)

5. Patents and Trademarks Account

	Rs.		Rs.
To Balance b/d	10,000	By Creditors A/c	4,500
		By Realisation A/c	1,500
		By Realisation A/c (bal.fig.)	4,000*
	10,000		10,000

(1 Mark)

Answer-2 (a) :

	Realisation Rs.	Interest on loans from partners' spouses Rs.	Interest on loans from partners Rs.	Partners' Capitals			
				A Rs.	B Rs.	C Rs.	Total Rs.
Balance due (1)		2,000	1,000	9,600	6,000	8,400	24,000
(i) Sale of Investments	1,000	(1,000)	=				
		1,000	1,000				
(ii) Sale of furniture	2,000	(1,000)	(1,000)				
		=	-				
(iii) Sale of machinery	1,200						
Maximum possible loss Rs.22,800				(11,400)	(6,840)	(4,560)	(22,800)

(total of capitals Rs. 24,000 less cash available Rs. 1,200) allocated to partners in the profit sharing ratio i.e. 5:3:2							
Amounts at credit				(1,800)	(840)	3,840	1,200
Deficiency of A and B written off against C				1,800	840	(2,640)	-
Amount paid (2)				-	-	1,200	1,200
Balances in capital accounts (1-2) = (3)				9,600	6,000	7,200	22,800
(iv) Sale of stock	4,000						
Maximum possible loss (Rs. 22,800 – Rs. 4,000) allocated to partners in the ratio 5:3:2	18,800						
Amounts at credit and cash paid (4)				200	360	3,440	(4,000)
Balances in capital accounts left unpaid – Loss (3-4) = (5)				9,400	5,640	3,760	18,800

(8 Marks)

Answer-2 (b) :

**In the books of Company
Journal Entries**

Date	Particulars	Dr. Rs.	Cr. Rs.
1-3-13 to 31-3-13	Bank A/c Employees compensation expenses A/c To Equity Share Capital A/c To Securities Premium A/c (Being allotment to employees 4,800 shares of Rs. 10 each at a premium of Rs. 130 at an exercise price of Rs. 50 each)	Dr. 2,40,000 Dr. 4,32,000	48,000 6,24,000
31-3-13	Profit and Loss account To Employees compensation expenses A/c (Being transfer of employees compensation expenses)	Dr. 4,32,000	4,32,000

(3 Marks)

Working Note:

- Employee Compensation Expenses = Discount between Market Price and option price = Rs. 140 – Rs. 50 = Rs. 90 per share = Rs. 90 x 4,800 = Rs. 4,32,000/- in total.
- The Employees Compensation Expense is transferred to Securities Premium Account.
- Securities Premium Account = Rs. 50 – Rs. 10 = Rs. 40 per share + Rs. 90 per share on account of discount of option price over market price = Rs. 130 per share = Rs. 130 x 4,800 = Rs. 6,24,000/- in total.

(1 Mark)

Answer-3 :

**In the books of 3R Enterprises
Realisation Account**

Rs. Rs.

To Land and Buildings	14,00,000	By Creditors	6,00,000
To Machinery	11,00,000	By 3R Enterprises (Pvt.) Ltd. A/c	42,00,000
To Furniture	6,10,000		
To Stock	8,40,000		
To Debtors	6,00,000		
To Cash at Bank	1,90,000		
To Ramesh's capital	30,000		
To Roshan's capital	20,000		
To Rohan's capital	10,000		

48,00,000

48,00,000

(3 Marks)

Partners' Capital Accounts

	Ramesh Rs.	Roshan Rs.	Rohan Rs.		Ramesh Rs.	Roshan Rs.	Rohan Rs.
To Shares in 3R Enterprises (Pvt.) Ltd. A/c	21,00,000	14,00,000	7,00,000	By Balance b/d	16,80,000	11,60,000	6,70,000
To Bank A/c (Settlement)	-	-	85,000	By General Reserve	3,15,000	2,10,000	1,05,000
				By Realization A/c. (Profit)	30,000	20,000	10,000
				By Bank A/c. (Settlement)	75,000	10,000	-
	21,00,000	14,00,000	7,85,000		21,00,000	14,00,000	7,85,000

(2 Marks)

In the Books of 3R Enterprises (Private) Ltd
Journal Entries

		Rs.	Rs.
1.	Business Purchase A/c To M/s 3R Enterprises (Consideration payable for business purchased)	Dr. 42,00,000	42,00,000
2.	Land and Buildings A/c Machinery A/c Furniture A/c Stock A/c Debtors A/c Bank A/c To Creditors A/c To Provision for doubtful debts A/c To Business Purchase A/c To Capital Reserve A/c (balancing figure) (Assets and liabilities taken over for Rs. 42,00,000; balance credited to capital reserve)	Dr. 16,40,000 Dr. 9,90,000 Dr. 6,10,000 Dr. 8,40,000 Dr. 6,00,000 Dr. 1,90,000	6,00,000 30,000 42,00,000 40,000
3.	Capital reserve A/c (Expenses of takeover) To Bank A/c (Expenses for take over debited to capital reserve)	Dr. 23,000	23,000
4.	M/s 3R Enterprises A/c To Equity share capital A/c (Allotment of fully paid equity shares to discharge consideration for business)	Dr. 42,00,000	42,00,000
5.	Preliminary expenses A/c* To Bank A/c (Expenses incurred to get the company incorporated)	Dr. 57,000	57,000

* As per para 56 of AS 26, preliminary expense is charged to Profit and Loss account in the year it is incurred.

(5 x 1 = 5 Marks)

Answer-4 :**(i) Statement showing underwriters' liability for shares other than shares underwritten firm**

	X	Y	Z	Total
Gross liability (Issued shares – purchased by promoters, directors etc) (9,00,000 shares in the ratio of 65 : 25 : 10)	5,85,000	2,25,000	90,000	9,00,000
Less: Marked applications	<u>(1,19,500)</u>	<u>(57,500)</u>	<u>(10,500)</u>	<u>(1,87,500)</u>
	4,65,500	1,67,500	79,500	7,12,500
Less : Allocation of unmarked applications (including firm underwriting i.e. 7,00,000) in the ratio 65 : 25 : 10	<u>(4,55,000)</u>	<u>(1,75,000)</u>	<u>(70,000)</u>	<u>(7,00,000)</u>
	10,500	(7,500)	9,500	12,500
Surplus of Y allocated to X and Z in the ratio 65 : 10	<u>(6,500)</u>	7,500	<u>(1,000)</u>	–
Additional shares to be purchased by X & Z	4,000	–	8,500	12,500

	Rs.	Rs.	Rs.
Additional Liability for additional shares @ Rs.	11 44,000	–	93,500
Underwriting commission payable on Gross Liability (Shares underwritten as Gross liability × Rs. 11 × 2%)	<u>(1,28,700)</u>	<u>(49,500)</u>	<u>(19,800)</u>
Net Amount payable	(84,700)	(49,500)	–
Net Amount receivable	–	–	73,700

(5 Marks)**(ii) Journal Entries**

	Dr. Rs.	Cr. Rs.
Bank A/c	Dr. 11,00,000	
To Equity Shares Application A/c		11,00,000
(Being application money received on 1 lakh equity shares purchased by directors etc@ Rs. 11 per share)		
Bank A/c	Dr. 97,62,500	
To Equity Share Application A/c		97,62,500
(Application money received on 8,87,500 equity shares @ Rs. 11 per share from general public and underwriters for shares underwritten firm)		
Equity Share Application A/c	Dr. 1,08,62,500	
X' s A/c	Dr. 44,000	
Z' s A/c	Dr. 93,500	
To Equity Share Capital A/c		1,00,00,000
To Securities Premium A/c		10,00,000
(Allotment of 10 lakh equity shares of Rs. 10 each at a premium of Rs. 1 per share)		
Underwriting commission A/c	Dr. 1,98,000	
To X's A/c		1,28,700
To Y's A/c		49,500
To Z's A/c		19,800
(Amount of underwriting commission payable to X, Y and Z @ 2% on the amount of shares underwritten)		

Bank A/c	Dr.	73,700	
To Z's A/c			73,700
(Amount received from Z in final settlement)			
X's A/c	Dr.	84,700	
Y's A/c	Dr.	49,500	
To Bank A/c			1,34,200
(Amount paid to X and Y in final settlement)			

(5 x 1 = 5 Marks)

Answer-5 :

Entyce Limited
Balance Sheet as on 01.04.2013

Particulars	Note No.	Figures as at the end of current reporting period
I. Equity and Liabilities		
(1) Shareholder's Funds		
(a) Share Capital	1	55,00,000
(b) Reserves and Surplus	2	85,85,000
(2) Non-Current Liabilities		
(a) Long-term borrowings - Unsecured Loans		45,00,000
(3) Current Liabilities		
(a) Short-term provisions		90,00,000
Total		2,75,85,000
II. Assets		
(1) Non-current assets		
(a) Fixed assets		
(i) Tangible assets		1,50,00,000
(2) Current assets		
(a) Cash and cash equivalents		5,85,000
(b) Other current assets		1,20,00,000
Total		2,75,85,000

(4 Marks)

Notes to Accounts

		Rs.
1	Share Capital	
	5,50,000 Equity Shares of Rs. 10 each	55,00,000
2	Reserve and Surplus	
	General Reserve	50,00,000
	Add: Debenture Redemption Reserve transfer	<u>35,00,000</u>
		85,00,000
	Add: Profit on sale of investments	<u>2,00,000</u>
		87,00,000
	Less: Premium on redemption of debentures (80,000 x Rs. 5)	<u>(4,00,000)</u>
	Securities Premium Account (1,50,000 x Rs. 1.9)	<u>2,85,000</u>
		85,85,000

(1 Mark)

Working Notes:

(i) Calculation of number of shares to be allotted

Total number of debentures	80,000
Less : Number of debentures not opting for conversion	<u>(12,000)</u>
	<u>68,000</u>
25% of 68,000	17,000
Redemption value of 17,000 debentures	Rs. 17,85,000
Number of Equity Shares to be allotted:	
= $\frac{17,85,000}{11.90}$ = 1,50,000 shares of Rs. 10 each.	

(1 Mark)

(ii) Calculation of cash to be paid

Number of debentures	80,000
Less: Number of debentures to be converted into equity shares	<u>(17,000)</u>
	<u>63,000</u>
Redemption value of 63,000 debentures (63,000 × Rs. 105)	Rs. 66,15,000

(1 Mark)

(iii) Cash and Bank Balance

Balance before redemption	Rs. 40,00,000
Add : Proceeds of investments sold	<u>32,00,000</u>
	72,00,000
Less : Cash paid to debenture holders	<u>(66,15,000)</u>
	<u>5,85,000</u>

(1 Mark)

-X-X-X-X