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SUGGESTED SOLUTION
IPCC NOVEMBER 2016 EXAM
ACCOUNTS

Test Code - I N J 1 0 7 9

BRANCH - (MUMBAI) (Date : 26.06.2016)

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Answer-1 (a) :

As per para 12 of AS 9 'Revenue Recognition', 'In a transaction involving the rendering of services, performance should be measured either under the completed service contract method or under the proportionate completion method, whichever relates the revenue to the work accomplished'.

In the given case, income accrues when the related advertisement appears before public. The advertisement service would be considered as performed on the day the advertisement is seen by public and hence revenue is recognized on that date. In this case, it is 15.03.2014, the date of publication of the magazine.

Hence, Rs. 3,00,000 (Rs. 2,40,000 + Rs. 60,000) is recognized as income in March, 2014. The terms of payment are not relevant for considering the date on which revenue is to be recognized. Rs. 60,000 is treated as amount due from advertisers as on 31.03.2014 and Rs. 2,40,000 will be treated as payment received against the sale.

However, if the publication is delayed till 02.04.2014 revenue recognition will also be delayed till the advertisements get published in the magazine. In that case revenue of Rs. 3,00,000 will be recognized for the year ended 31.03.2015 after the magazine is published on 02.04.2014. The amount received from sale of advertising space on 10.03.2014 of Rs. 2,40,000 will be considered as an advance from advertisers for the year ended 31st March, 2014.

(6 Marks)**Answer-1 (b) :**

**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 31 st March 2010	To Sales Ledger Adjustment A/c. (In General Ledger) :		1 April, 09	By Balance b/d	1,37,250
	Return inward	1,200	1 st April, 2009 to 31 st 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			
31 st 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 Adjustment Account of Purchases Ledger.

Answer-2 :

**Elegant Ltd.
Balance Sheet as on 31st March, 2014**

Particulars	Notes	Rs.
Equity and Liabilities		
1 Shareholders' funds		
a Share capital	1	49,95,000
b Reserves and Surplus	2	14,83,500
2 Non-current liabilities		
Long-term borrowings	3	13,17,500
3 Current liabilities		
a Trade Payables		10,00,000

b	Other current liabilities	4	37,500
c	Short-term provisions	5	<u>6,40,000</u>
Total			<u>94,73,500</u>

(7 Marks)

Assets

1 Non-current assets

Fixed assets

Tangible assets 6 56,25,000

2 Current assets

a Inventories 7 12,50,000

b Trade receivables 8 10,00,000

c Cash and cash equivalents 9 13,85,000

d Short-term loans and advances 2,13,500

Total **94,73,500**

Notes to accounts

Rs.

1 Share Capital

Equity share capital

Issued & subscribed & called up

50,000 Equity Shares of Rs. 100 each

(of the above 10,000 shares have been issued for consideration other than cash)

50,00,000

Less: Calls in arrears

(5,000)

49,95,000

Total

49,95,000

2 Reserves and Surplus

General Reserve

10,50,000

Surplus (Profit & Loss A/c)

4,33,500

Total

14,83,500

3 Long-term borrowings

Secured Term Loan

State Financial Corporation Loan (7,50,000- 37,500)

(Secured by hypothecation of Plant and Machinery)

7,12,500

Unsecured Loan

6,05,000

Total

13,17,500

4 Other current liabilities

Interest accrued but not due on loans (SFC)

37,500

5 Short-term provisions

Provision for taxation

6,40,000

6 Tangible assets

Land and Building

30,00,000

Less: Depreciation

(2,50,000)

27,50,000

Plant & Machinery

35,00,000

Less: Depreciation

(8,75,000)

26,25,000

Furniture & Fittings

3,12,500

Less: Depreciation

(62,500)

2,50,000

Total

56,25,000

7 Inventories

Raw Materials

2,50,000

	Finished goods		<u>10,00,000</u>
	Total		<u>12,50,000</u>
8	Trade receivables		
	Outstanding for a period exceeding six months		2,60,000
	Other Amounts		<u>7,40,000</u>
	Total		<u>10,00,000</u>
9	Cash and cash equivalents		
	Cash at bank		
	with Scheduled Banks	12,25,000	
	with others (Global Bank Ltd.)	<u>10,000</u>	12,35,000
	Cash in hand		<u>1,50,000</u>
	Total		<u>13,85,000</u>

(5 Marks)

Answer-3 (a) :

Siva in Account Current with Ram as on 31st October, 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 Balance c/d	518.48		
		2018.48		1,88,500			2018.48		1,88,500

(3 Marks)

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

(1 Mark)

Answer-3 (b) :

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

Particulars	Total Amount	Basis of Allocation	Preincorporation	Postincorporation
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	1,81,600			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 :

**In the books of Gee Ltd.
Journal Entries**

Particulars	Debit Rs.	Credit Rs.
Business purchase A/c (W.N.1) To Liquidator of Pee Ltd. (Being business of Pee Ltd. taken over)	Dr. 25,85,000	25,85,000
Building A/c	Dr. 7,75,000	
Plant and machinery A/c	Dr. 8,50,000	
Furniture and fixtures A/c.	Dr. 1,75,000	
Investments A/c.	Dr. 2,50,000	
Inventory A/c.	Dr. 4,75,000	
Debtors A/c.	Dr. 4,60,000	
Bills receivables A/c.	Dr. 55,000	
Bank A/c	Dr. 2,60,000	
To General reserve A/c (W.N.2)(2,50,000-2,35,000)		15,000
To Export profit reserve A/c		1,00,000
To Investment allowance reserve A/c		50,000
To Profit and loss A/c		1,25,000
To Liability for 15% Debentures A/c (Rs. 100 each)		1,75,000
To Trade creditors A/c		75,000
To Bills payables A/c.		1,00,000
To Other current liabilities A/c		75,000
To Business purchase A/c.		25,85,000
(Being assets and liabilities taken over)		
Liquidator of Pee Ltd.	Dr. 25,85,000	
To Equity share capital A/c		16,50,000
To 15% Preference share capital A/c.		9,35,000
(Being purchase consideration discharged)		
General Reserve* A/c.	Dr. 10,000	
To Cash at bank		10,000
(Being expenses of amalgamation paid)		
Liability for 15% Debentures in Pee Ltd. A/c.	Dr. 1,75,000	
To 15% Debentures A/c		1,75,000
(Being debentures in Pee Ltd. discharged by issuing own 15% debentures)		
Bills payables A/c.	Dr. 55,000	
To Bill receivables A/c		55,000
(Cancellation of mutual owing on account of bills of exchange)		

* It can also be adjusted against Profit & Loss A/c.

**Opening Balance Sheet of Gee Ltd. (after absorption)
as on 1st April, 2015**

Particulars	Notes	Rs.
Equity and Liabilities		
1 Shareholders' funds		
a Share capital	1	61,85,000
b Reserves and Surplus	2	10,55,000
2 Non-current liabilities		
a Long-term borrowings	3	4,25,000
3 Current liabilities		
a Trade Payables	4	3,45,000
b Other current liabilities	5	<u>1,75,000</u>
Total		<u>81,85,000</u>
Assets		
1 Non-current assets		
a Fixed assets		
Tangible assets	6	49,62,500
b Investments	7	6,00,000
2 Current assets		
a Inventories	8	11,00,000
b Trade receivables	9	9,10,000
c Cash and cash equivalents	10	<u>6,12,500</u>
Total		<u>81,85,000</u>

(4 Marks)

Notes to accounts

Particulars	Notes	Rs.
1 Share Capital		
Equity share capital		
4,15,000 Equity shares of Rs. 10 each (Out of above, 1,65,000 shares were issued for consideration other than cash)		41,50,000
Preference share capital		
9,350 15% Preference shares of Rs. 100 each (Out of above, 9,350 shares were issued for consideration other than cash)		9,35,000
11,000 14% Preference Shares of Rs. 100 each		<u>11,00,000</u>
Total		<u>61,85,000</u>
2 Reserves and Surplus		
General Reserve		
Opening balance	2,50,000	
Add: Adjustment under scheme of amalgamation	15,000	
Less: Amalgamation expense paid	<u>(10,000)</u>	2,55,000
Export profit reserve		
Opening balance	1,50,000	
Add: Adjustment under scheme of amalgamation	<u>1,00,000</u>	2,50,000
Investment allowance reserve		50,000
Profit and loss account		
Opening balance	3,75,000	
Add: Adjustment under scheme of amalgamation	<u>1,25,000</u>	<u>5,00,000</u>
Total		<u>10,55,000</u>

3	Long-term borrowings		
	Secured		
	15% Debentures	2,50,000	
	Add: Adjustment under scheme of amalgamation	<u>1,75,000</u>	<u>4,25,000</u>
	Total		<u>4,25,000</u>
4	Trade payables		
	Creditors: Opening balance	1,50,000	
	Add: Adjustment under scheme of amalgamation	<u>75,000</u>	2,25,000
	Bills Payables: Opening balance	75,000	
	Add: Adjustment under scheme of amalgamation	1,00,000	
	Less: Cancellation of mutual owing upon amalgamation	<u>(55,000)</u>	<u>1,20,000</u>
			<u>3,45,000</u>
5	Other current liabilities		
	Opening balance	1,00,000	
	Add: Adjustment under scheme of amalgamation	<u>75,000</u>	1,75,000
6	Tangible assets		
	Buildings- Opening balance	12,50,000	
	Add: Adjustment under scheme of amalgamation	<u>7,75,000</u>	20,25,000
	Plant and machinery- Opening balance	16,25,000	
	Add: Adjustment under scheme of amalgamation	<u>8,50,000</u>	24,75,000
	Furniture and fixtures- Opening balance	2,87,500	
	Add: Adjustment under scheme of amalgamation	<u>1,75,000</u>	<u>4,62,500</u>
	Total		<u>49,62,500</u>
7	Investments		
	Opening balance	3,50,000	
	Add: Adjustment under scheme of amalgamation	<u>2,50,000</u>	6,00,000
8	Inventories		
	Opening balance	6,25,000	
	Add: Adjustment under scheme of amalgamation	<u>4,75,000</u>	11,00,000
9	Trade receivables		
	Debtors: Opening balance	4,00,000	
	Add: Adjustment under scheme of amalgamation	<u>4,60,000</u>	8,60,000
	Bills Payables: Opening balance	50,000	
	Add: Adjustment under scheme of amalgamation	55,000	
	Less: Cancellation of mutual owing upon amalgamation	<u>(55,000)</u>	<u>50,000</u>
	Total		<u>9,10,000</u>
10	Cash and cash equivalents		
	Opening balance	3,62,500	
	Add: Adjustment under scheme of amalgamation	2,60,000	
	Less: Amalgamation expense paid	<u>(10,000)</u>	6,12,500

(5 Marks)

Working Notes:

1. Calculation of purchase consideration

	Rs.
Equity shareholders of Pee Ltd. (1,65,000 x Rs. 10)	16,50,000
Preference shareholders of Pee Ltd. (8,50,000 x 110%)	<u>9,35,000</u>
Purchase consideration would be	<u>25,85,000</u>

(1 Mark)

2. Amount to be adjusted from general reserve

The difference between the amount recorded as share capital issued and the amount of share capital of transferor company should be adjusted in General Reserve. Thus, General reserve will be adjusted as follows:

	Rs.
Purchase consideration	25,85,000
Less: Share capital issued (Rs. 15,00,000 + Rs. 8,50,000)	<u>(23,50,000)</u>

Amount to be adjusted from general reserve

2,35,000
(2 Marks)