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**IPCC NOVEMBER 2016 EXAM**

**ACCOUNTS**

**Test Code - I N J 1 0 8 1**

**BRANCH - (MULTIPLE) (Date : 14.08.2016)**

**Head Office : Shraddha, 3<sup>rd</sup> Floor, Near Chinai College, Andheri (E), Mumbai – 69.**

**Tel : (022) 26836666**

Answer-1 (a) :

**Cash Flow Statement of ABC Ltd. for the year ended 31.3.2015**

Cash flows from Operating Activities	Rs.	Rs.
Net Profit	22,40,000	
Add: Adjustment for Depreciation (Rs. 7,90,000 – Rs. 6,10,000)	<u>1,80,000</u>	
Operating profit before working capital changes	24,20,000	
Add: Decrease in Inventories (Rs. 20,10,000 – Rs. 19,20,000)	90,000	
Increase in provision for doubtful debts(Rs. 4,20,000 – Rs. 1,50,000)	<u>2,70,000</u>	
	27,80,000	
Less: Increase in Current Assets:		
Trade receivables (Rs. 30,60,000 – Rs. 23,90,000)	6,70,000	
Prepaid expenses (Rs. 1,20,000 – Rs. 90,000)	30,000	
Decrease in current liabilities:		
Trade payables (Rs. 8,80,000 – Rs. 8,20,000)	60,000	
Expenses outstanding (Rs. 3,30,000 – Rs. 2,70,000)	<u>60,000</u>	<u>(8,20,000)</u>
Net cash from operating activities		19,60,000
Cash flows from Investing Activities		
Purchase of Plant & Equipment(Rs. 40,70,000 – Rs. 27,30,000)	<u>13,40,000</u>	
Net cash used in investing activities		(13,40,000)
Cash flows from Financing Activities		
Bank loan raised (Rs. 3,00,000 – Rs. 1,50,000)	1,50,000	
Issue of debentures	9,00,000	
Payment of Dividend (Rs. 12,00,000 – Rs. 1,50,000)	<u>(10,50,000)</u>	
Net cash used in financing activities		<u>NIL</u>
Net increase in cash during the year		6,20,000
Add: Cash and cash equivalents as on 1.4.2014(Rs. 15,20,000 + Rs. 11,80,000)		<u>27,00,000</u>
Cash and cash equivalents as on 31.3.2015(Rs. 18,20,000 + Rs. 15,00,000)		<u>33,20,000</u>

**(10 Marks)**

Note: Bad debts amounting Rs. 2,30,000 were written off against provision for doubtful debts account during the year. In the above solution, Bad debts have been added back in the balances of provision for doubtful debts and trade receivables as on 31.3.2015. Alternatively, the adjustment of writing off bad debts may be ignored and the solution can be given on the basis of figures of trade receivables and provision for doubtful debts as appearing in the balance sheet on 31.3.2015.

Answer-1 (b) :

1. Total Sales = Cash sales + Credit sales  
= Rs. 1,68,500 + Rs. 2,25,000 (W.N.1)  
= Rs. 3,93,500
2. Total Purchases = Cash Purchases + Credit Purchases  
= Rs. 1,97,800 + Rs. 2,70,000 (W.N.2)  
= Rs. 4,67,800

**(4 Marks)**

**Working Notes:**

**1. Debtors Account**

Particulars	Rs.	Particulars	Rs.
To Balance b/d	70,000	By Bills receivable	47,000
To Bills receivable dishonoured	5,000	By Cash	1,56,000
To Bills receivable dishonoured (endorsed)	3,000	By Discount allowed	9,000
To Bills receivable dishonoured(discounted)	2,000	By Sales return	11,000
To Credit sales (bal.fig.)	2,25,000	By Balance c/d	82,000
	<b>3,05,000</b>		<b>3,05,000</b>

(1 Mark)

**2. Creditors Account**

Particulars	Rs.	Particulars	Rs.
To Bills payable	53,000	By Balance b/d	81,000
To Cash	1,72,000	By Bills receivable dishonoured (endorsed)	3,000
To Discount received	7,000	By Credit purchases (bal.fig.)	2,70,000
To Bills receivable endorsed	27,000		
To Balance c/d	95,000		
	<b>3,54,000</b>		<b>3,54,000</b>

(1 Mark)

**Note:** It is assumed that sales return is out of credit sales only.

**Answer-2 :**

**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 (Being debentures in Pee Ltd. discharged by issuing own 15% debentures)		1,75,000
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Bills payables A/c.	Dr.	55,000	
To Bill receivables A/c (Cancellation of mutual owing on account of bills of exchange)			55,000

(6 Marks)

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

(4 Marks)

**Notes to accounts**

	Rs.
<b>1 Share Capital</b>	
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>
<b>Total</b>	<b><u>61,85,000</u></b>
<b>2 Reserves and Surplus</b>	
General Reserve	
Opening balance	2,50,000
Add: Adjustment under scheme of amalgamation	15,000
Less: Amalgamation expense paid	<u>(10,000)</u>
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>
	<b>Total</b>		<b><u>10,55,000</u></b>
<b>3</b>	<b>Long-term borrowings</b>		
	Secured		
	15% Debentures	2,50,000	
	Add: Adjustment under scheme of amalgamation	<u>1,75,000</u>	<u>4,25,000</u>
	<b>Total</b>		<b><u>4,25,000</u></b>
<b>4</b>	<b>Trade payables</b>		
	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>
	<b>Total</b>		<b><u>3,45,000</u></b>
<b>5</b>	<b>Other current liabilities</b>		
	Opening balance	1,00,000	
	Add: Adjustment under scheme of amalgamation	<u>75,000</u>	1,75,000
<b>6</b>	<b>Tangible assets</b>		
	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>
	<b>Total</b>		<b><u>49,62,500</u></b>
<b>7</b>	<b>Investments</b>		
	Opening balance	3,50,000	
	Add: Adjustment under scheme of amalgamation	<u>2,50,000</u>	6,00,000
<b>8</b>	<b>Inventories</b>		
	Opening balance	6,25,000	
	Add: Adjustment under scheme of amalgamation	<u>4,75,000</u>	11,00,000
<b>9</b>	<b>Trade receivables</b>		
	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>
	<b>Total</b>		<b><u>9,10,000</u></b>
<b>10</b>	<b>Cash and cash equivalents</b>		
	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

(10 x 0.5 = 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>

**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	<u>2,35,000</u>
	<b>(2 x 0.5 = Mark)</b>

**Answer-3 (a) :**

$$\text{Ratio of interest and amount due} = \frac{\text{Rate of interest}}{100 + \text{Rate of interest}} = \frac{10}{110} = \frac{1}{11} \quad (1 \text{ Mark})$$

There is no interest element in the down payment as it is paid on the date of the transaction. Instalments paid after certain period includes interest portion also. Therefore, to ascertain cash price, interest will be calculated from last instalment to first instalment as follows:

**Calculation of Interest and Cash Price**

No. of instalments [1]	Amount due at the time of instalment [2]	Interest [3]	Cumulative Cash price (2-3) = [4]
3rd	2,20,000	1/11 of Rs. 2,20,000 = Rs. 20,000	2,00,000
2nd	4,20,000 [W.N.1]	1/11 of Rs. 4,20,000 = Rs. 38,182	3,81,818
1st	6,01,818 [W.N.2]	1/11 of Rs. 6,01,818 = Rs. 54,711	5,47,107

**(3 Marks)**

Total cash price = Rs. 5,47,107 + 2,40,000 (down payment) = Rs. 7,87,107.

**Working Notes:**

1. Rs. 2,00,000 + 2nd instalment of Rs. 2,20,000 = Rs. 4,20,000.
2. Rs. 3,81,818 + 1st instalment of Rs. 2,20,000 = Rs. 6,01,818.

**(2 Marks)**

**Answer-3 (b) :**

**In the Books of Mr. Z  
9% Central Government Bonds (Investment) Account**

Particulars		Face Value	Interest	Principal	Particulars		Face Value	Interest	Principal
2008		Rs.	Rs.	Rs.	2008		Rs.	Rs.	Rs.
Jan.1	To Balance b/d	1,20,000	2,700	1,18,000	March 31	By Bank A/c.	-	6,300	-
March 1	To Bank A/c.	20,000	750	19,600	July 1	By Bank A/c.	50,000	1,125	50,000
July 1	To P & L A/c.	-	-	833	Sept. 30	By Bank A/c.	-	4,050	-
Oct.1	To Bank A/c.	15,000	-	14,700	Nov.1	By Bank A/c	30,000	225	29,700
Nov.1	To P & L A/c.	-	-	200	Dec.31	By Balance c/d	75,000	1,688	73,633
Dec.31	To P & L A/c. (Transfer)	-	9,938	-					
		1,55,000	13,38	1,53,333			1,55,000	13,388	1,53,333

**(4 Marks)**

**Working Note:**

**Calculation of closing balance:**

	Units	Rs.
Bonds in hand remained in hand at 31st December 2008		
From original holding (1,20,000 – 50,000 – 30,000)=	40,000	$\frac{1,18,000}{1,20,000} \times 40,000 = 39,333$
Purchased on 1st March	20,000	19,600
Purchased on 1st October	15,000	14,700

(2 Marks)

Answer-4 :

**Shri Garib Das**  
**Trading Account for the year ended on 31st December, 2010**

	Rs.		Rs.	Rs.
To Opening Stock	36,750	By Sales A/c.		2,43,500
To Purchases	1,99,000	By Closing Stock :		
To Gross Profit	48,700	As valued	39,800	
		Add : Amount written off to restore stock to full cost	<u>1,150</u>	40,950
	<b>2,84,450</b>			<b>2,84,450</b>

(2 Marks)

The normal rate of gross profit to sales is =  $\frac{48,700}{2,43,500} \times 100 = 20\%$

**Memorandum Trading Account upto 19, May, 2011**

	Normal items Rs.	Abnormal items Rs.	Total Rs.		Normal Rs.	Abnormal items Rs.	Total items Rs.
To Opening Stock	37,500	3,450*	40,950	By Sales	1,14,000	1,600	1,15,600
To Purchases	81,000	-	81,000	By Loss	-	125	125
To Gross Profit (20% on Rs.1,14,000)	22,800	-	22,800	By Closing Stock (Bal.fig.)	27,300	1,725	29,025
	<b>1,41,300</b>	<b>3,450</b>	<b>1,44,750</b>		<b>1,41,300</b>	<b>3,450</b>	<b>1,44,750</b>

(2 Marks)

\* at cost.

**Calculation of Insurance Claim**

Value of Stock on 19th May, 2011	Rs. 29,025
Less : Salvage	<u>(2,900)</u>
Loss of stock	<u>26,125</u>

Therefore, insurance claim will be for Rs. 26,125 only.

(2 Marks)