SUGGESTED SOLUTION

IPCC NOVEMBER 2016 EXAM

ADVANCED ACCOUNTING

Test Code - I N J1 0 9 0

BRANCH - (MUMBAI) (Date : 03.07.2016)

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

Tel : (022) 26836666

Answer-1 :

M/s P, Q and R

Profit and Loss Account for the year ending on 31st March, 2013

		Rs.		Rs.
To Depreciation on Machinery		6,000	By Trading Profit	50,000
To Depreciation on furniture		500	By Interest on Investment	5,000
To Interest on Q's loan		900		
To Net Profit to :				
P's Capital A/c	23,800			
Q's Capital A/c	11,900			
R's Capital A/c	11,900	47,600		
		55,000		**55,000**

(2 Marks)

Balance Sheet of the PQR Pvt. Ltd. as on 1st April, 2013

		Notes No.	Rs.
I	**Equity and Liabilities**		
	Shareholders' funds		
	Share capital		1,41,600
	Current liabilities		
	Short term borrowings	1	15,900
	Trade payables		20,000
	Total		**1,77,500**
II	**Assets**		
	Non-current assets		
	Fixed assets		
	Tangible assets	2	63,500
	Non-current investments		50,000
	Current assets		
	Inventories		15,000
	Trade receivables		30,000
	Cash and cash equivalents		19,000
	Total		**1,77,500**

(3 Marks)

Notes to Accounts

			Rs.
1.	**Short term borrowings**		
	Loan from Q		15,900
2.	**Tangible assets**		
	Machinery	54,000	
	Furniture	9,500	63,500

Working Notes:

1. Calculation of goodwill

	2007-08 Rs.	2008-09 Rs.	2009-10 Rs.	2010-11 Rs.	2011-12 Rs.
Profits/(Loss)	25,000	12,500	(2,500)	35,000	30,000
Adjustment for extraneous profit					

of 2007-08 and abnormal loss of 2009-10	(40,000)	-	20,000	—	—
	(15,000)	12,500	17,500	35,000	30,000
Add: Salary of P (750 x12)	9,000	9,000	9,000	9,000	9,000
	(6,000)	21,500	26,500	44,000	39,000
Less: Interest on non-trading investment*	(5,000)	(5,000)	(5,000)	(5,000)	(5,000)
	(11,000)	16,500	21,500	39,000	34,000
Total Profit from 2008-09 to2011-12					1,11,000
Less : Loss for 2007-08					(11,000)
					1,00,000
Average Profit					20,000
Goodwill equal to 3 years'purchase					60,000
Contribution from R for ¼ share					15,000

(2 Marks)

* Investments are assumed to be non-trading investments.

2. Calculation of sacrificing ratio of Partners P and Q on admission of R

	Old share	New share	Sacrificing share	Gaining share
P	3/5	1/2	$\frac{3}{5}-\frac{1}{2}=\frac{6-5}{10}=\frac{1}{10}$	
Q	2/5	1/4	$\frac{2}{5}-\frac{1}{4}=\frac{8-5}{20}=\frac{3}{20}$	
R		1/4		1/4

3. Goodwill adjustment entry* through Partners' capital accounts (in their sacrificingratio of 2:3)

		Rs.	Rs.
R' s capital A/c	Dr.	15,000	
To P's capital A/c			6,000
To Q' s capital A/c.			9,000
(R's share in goodwill adjusted through P and Q)			

*As per AS 26 "Intangible Assets", only purchased goodwill should appear in the books. Therefore,goodwill though required to be shown in the books as per the requirement of the question, has beenadjusted through capital accounts of the partners in line with the provisions of AS 26.

(1 Mark)

4. Partners' Capital Accounts

	P Rs.	Q Rs.	R Rs.		P Rs.	Q Rs.	R Rs.
To Drawings (1,000 x 12)	12,000	12,000	12,000	By Balanceb/d	50,000	30,000	—
To P			6,000	By GeneralReserve	12,000	8,000	—
To Q			9,000	By R	6,000	9,000	—
To Balance c/d	79,800	46,900	14,900	By Bank(15,000 + 15,000)	—	—	30,000
				By Profit & Loss A/c.	23,800	11,900	11,900
	91,800	**58,900**	**41,900**		**91,800**	**58,900**	**41,900**

(2 Marks)

5. Balance Sheet of the firm as on 31st March, 2013

Liabilities	Rs.	Rs.	Assets	Rs.	Rs.

P's Capital	79,800		Machinery	60,000	
Q's Capital	46,900		Less : Depreciation	(6,000)	54,000
R's Capital	14,900	1,41,600	Furniture	10,000	
			Less : Depreciation	(500)	9,500
Q's Loan	15,000		Investments		50,000
Add : Interest due	900	15,900	Stock-in-trade		15,000
Creditors		20,000	Debtors		30,000
			Cash (W.N.6)		19,000
		1,77,500			**1,77,500**

(2 Marks)

6. Cash balance as on 31.3.2013

	Rs.	Rs.
Cash trading profit		50,000
Add: Investment Interest		5,000
Add: Decrease in Stock Balance		5,000
		60,000
Less: Increase in Debtors	9,000	
Less: Decrease in Creditors	20,000	(29,000)
		31,000
Add: Opening cash balance	5,000	
Add: Cash brought in by R	30,000	35,000
		66,000
Less: Drawings (12,000 +12,000 +12,000)	36,000	
Less: Additions to Machine (60,000 - 54,000)	6,000	
Furniture (10,000 - 5,000)	5,000	(47,000)
Closing cash balance		19,000

(2 Marks)

7. Distribution of shares – Conversion into Company

		Rs.
Capital :	P 7	9,800
	Q	46,900
	R	14,900
Share Capital		1,41,600
Distribution of shares :	P (1/2)	70,800
	Q (1/4)	35,400
	R (1/4)	35,400

P and Q should withdraw capital of Rs. 9,000 (Rs. 79,800 – Rs. 70,800) and Rs.11,500 (Rs. 46,900 –Rs. 35,400) respectively and R should subscribe shares of Rs. 20,500 (Rs.35,400 – Rs. 14,900).

Answer-2 :

Balance Sheet of M/s PQR & Co. as at 31st March, 2009

Liabilities		**Rs.**	**Assets**	**Rs.**
Capitals:			Building	
			(Rs. 1,00,000 + Rs. 60,000)	1,60,000
P	5,52,000		Plant & machinery	
			(Rs. 2,50,000+Rs. 2,00,000)	4,50,000
Q	3,68,000		Office equipment	
			(Rs. 20,000+Rs. 6,000)	26,000
R	1,84,000	11,04,000	Stock-in-trade	

		(Rs. 1,44,000+Rs. 1,68,000)		3,12,000
Sundry creditors		Sundry debtors		
(1,20,000+1,16,000)	2,36,000	(Rs. 1,60,000+Rs. 2,00,000)	3,60,000	
Bank overdraft	80,000	Less: Provision for doubtful debts		
		(Rs. 12,000+Rs. 26,000)	(38,000)	3,22,000
		Bank balance (Rs. 30,000+ Rs. 90,000)		1,20,000
		Cash in hand		30,000*
	14,20,000			**14,20,000**

* Rs. 20,000+Rs. 10,000+Rs. 1,53,000+Rs. 30,000 –Rs. 1,83,000 = Rs. 30,000.

(5 Marks)

In the books of P & Co.
Partners' Capital Accounts

Particulars	P Rs.	Q Rs.	Particulars	P Rs.	Q Rs.
To Capital A/cs – M/s PQR & Co.	4,89,000	2,43,000	By Balance b/d	2,40,000	1,60,000
			By Reserve (3:1)	37,500	12,500
			By Profit on Realisation A/c. (W.N.4)	2,11,500	70,500
	4,89,000	**2,43,000**		**4,89,000**	**2,43,000**

(2 Marks)

In the books of R & Co.
Partners' Capital Accounts

Particulars	P Rs.	Q Rs.	Particulars	P Rs.	Q Rs.
To Capital A/cs – M/s PQR & Co.	3,68,000	1,84,000	By Balance b/d	2,00,000	1,00,000
			By Reserve (2:1)	1,00,000	50,000
			By Profit on Realisation(W.N.5)	68,000	34,000
	3,68,000	**1,84,000**		**3,68,000**	**1,84,000**

(1 Mark)

Working Notes:

1. Computation of purchase considerations

	P & Co. Rs.	R & Co. Rs.
Assets:		
Goodwill	1,20,000	60,000
Building	1,00,000	60,000
Plant & machinery	2,50,000	2,00,000
Office equipment	20,000	6,000
Stock-in-trade	1,44,000	1,68,000
Sundry debtors	1,60,000	2,00,000
Bank balance	30,000	90,000
Cash in hand	20,000	10,000
Due from R & Co.	1,00,000	-
(A)	**9,44,000**	**7,94,000**

Liabilities:		
Creditors	1,20,000	1,16,000
Provision for doubtful debts	12,000	26,000
Due to P & Co	. -	1,00,000
Bank overdraft	80,000	-
(B)	**2,12,000**	**2,42,000**
Purchase consideration (A-B)	**7,32,000**	**5,52,000**

(2 Marks)

2. Computation of proportionate capital

	Rs.
M/s PQR & Co. (Purchase Consideration) (Rs. 7,32,000+ Rs. 5,52,000)	12,84,000
Less: Goodwill adjustment	(1,80,000)
Total capital of new firm (Distributed in ratio 3:2:1)	11,04,000
P's proportionate capital	5,52,000
Q's proportionate capital	3,68,000
R's proportionate capital	1,84,000

(1 Mark)

3. Computation of Capital Adjustments

	P Rs.	Q Rs.	R Rs.	Total Rs.
Balance transferred from P & Co.	4,89,000	2,43,000		7,32,000
Balance transferred from R & Co.		3,68,000	1,84,000	5,52,000
	4,89,000	6,11,000	1,84,000	12,84,000
Less: Goodwill written off in theratio of 3:2:1	(90,000)	(60,000)	(30,000)	(1,80,000)
Existing capital	3,99,000	5,51,000	1,54,000	11,04,000
Proportionate capital	5,52,000	3,68,000	1,84,000	11,04,000
Amount to be brought in (paid off)	1,53,000	(1,83,000)	30,000	

(1 Mark)

4. In the books of P & Co.

Realisation Account

		Rs.		Rs.
To Building		50,000	By Creditors	1,20,000
To Plant & machinery		1,50,000	By Bank overdraft	80,000
To Office equipment		20,000	By M/s PQR & Co.	7,32,000
To Stock-in-trade		1,20,000	(purchase consideration)	
To Sundry debtors		1,60,000	(W.N.1)	
To Bank balance		30,000		
To Cash in hand		20,000		
To Due from R & Co.		1,00,000		
To Partners' capital A/cs				
P	2,11,500			
Q	70,500	2,82,000		
		9,32,000		**9,32,000**

(1 Mark)

5. In the books of R & Co.

Realisation Account

	Rs.		Rs.
To Building	60,000	By Creditors	1,16,000

To Plant & machinery		1,60,000	By Due to P & Co.	1,00,000
To Office equipment		6,000	By M/s PQR & Co. (purchase consideration) (W.N.1)	5,52,000
To Stock-in-trade		1,40,000		
To Sundry debtors		2,00,000		
To Bank balance		90,000		
To Cash in hand		10,000		
To Partners' capital A/cs				
Q	68,000			
R	34,000	1,02,000		
		7,68,000		**7,68,000**

(1 Mark)

Note: The adjustments in the Capital Accounts of P, Q and R (both for Goodwill and theamounts paid to Q by P and R) can be shown in their Capital Accounts in the Books of P& Co and R & Co respectively. In such a case the Capital Account of the partners carriedto PQR & Co will be the same amounts as shown in the Balance Sheet of PQR & Co.

Answer-3 :

MK Ltd.'s Ledger

(i) Own Debentures Account

		Rs.			Rs.
31.5.12	To Bank	7,84,000	31.12.12	By 9% Debentures A/c.	5,00,000
31.12.12	To Capital Reserve (Profit on cancellation)	10,000	31.1.13	By Bank- Resale of 2,000 debentures	2,02,000
31.1.13	To Profit and Loss A/c (Profit on resale)	6,000	31.3.13	By Balance c/d	98,000
		8,00,000			**8,00,000**

(1 Mark)

(ii) Interest on Debentures Account

		Rs.			Rs.
31.5.12	To Bank (Interest for 2 months on 8,000 debentures)	12,000	31.3.13	By Profit and Loss A/c.	4,38,750
30.9.12	To Interest on own debentures (Interest for 4 months on 8,000 debentures)	24,000			
30.9.12	To Bank (Interest for 6 months on 42,000 debentures)	1,89,000			
31.12.12	To Interest on own debentures (Interest for 3 months on 5,000 debentures)	11,250			
31.3.13	To Interest on own debentures (Interest for 6 months on 1,000 debentures)	4,500			
31.3.13	To Bank (Interest for 6 months on 44,000 debentures)	1,98,000			
		4,38,750			**4,38,750**

(3 Marks)

(iii) Interest on Own Debentures Account

		Rs.			Rs.
31.3.13	To Profit and Loss A/c.	45,750	30.9.12	By Interest on Debentures A/c.	24,000
			31.12.12	By Interest on Debentures A/c.	11,250
			31.01.13	By Bank (interest for 4 months on2,000 debentures)	6,000
			31.03.13	By Interest on Debentures	4,500
		45,750			**45,750**

(2 Marks)

Working Note:

31.5.12	Acquired 8,000 Debentures @ 98 per debenture (ex-interest)	Rs.
	Purchase price of debenture (8,000 × Rs. 98) =	7,84,000
	Interest for 2 months [Rs. 8,00,000 × 9% × 2/12]=	12,000
30.9.12	Interest on own debentures	
	[Rs. 8,00,000 × 9% × ½] less Rs.12,000 =	24,000
	Interest on other debentures	
	Rs. 42,00,000 × 9% × ½ =	1,89,000
31.12.12	Cancellation of 5,000 own debentures	
	Face value Rs.100 less acquired at Rs. 98 = 2 × 5,000 =	10,000
31.1.13	Resale of 2,000 Debentures sold for 101 (ex-interest) acquired for Rs. 98 (ex-interest)	
	2,000 × Rs. 3 per debenture =	6,000
31.12.12	Interest on cancelled 5,000 debentures	
	5,000 × Rs. 100 × 9% × 1/4 =	11,250
31.3.13	Interest on 1,000 own debentures	
	Rs. 1,00,000 × 9% × ½ =	4,500

(2 Marks)

Answer-4 (a) :

Relevant Schedules (forming part of the Balance sheet) of DVD Bank

Schedule 3: Deposits

		Rs. in lacs
A	Demand deposits (700 – 250)	450
B	Saving bank deposits	500
C	Term deposits (Fixed Deposits)	700
		1,650

(2 Mark)

Schedule 9: Advances

			Rs. in lacs
A	(i)	Bills discounted and purchased	800
	(ii)	Cash credits and overdrafts (600 + 250)	850
	(iii)	Term loans	500
			2,150
B.	(i)	Secured by tangible assets (bal. fig.)	1,730

(ii)	Secured by Bank/Government guarantees (500 x 60%)	300
(iii)	Unsecured (600 x 20%)	120
		2,150

(1 Mark)

Schedule 5: Other Liabilities & Provisions

	Rs. in lacs
Others (Provision for doubtful debts)	10

(1 Mark)

Profit and Loss Account (an extract)

	Rs. in lacs
Less: Provision for doubtful debts*	10

Note: The overdrawn extent in Current Accounts will be shown as Overdrafts.

*Note: It is assumed that the cash credit has been in 'doubtful' category for more than threeyears, hence provision made at 100%.

Answer-4 (b) :

In the Books of Shah

Trading and Profit and Loss Account for the year ended 31st March, 2013

Particulars	H.O.	Branch	Total		H.O.	Branch	Total
Rs. Rs. Rs. Rs. Rs. Rs.							
To Purchases	19,69,500	–	19,69,500	By Sales	12,80,000	8,20,000	21,00,000
To Cost of processing	50,500	–	50,500	By Goods sent to Branch	9,24,000	–	
To Goods received				By Stock shortage	–	16,000	14,545
from H.O.	–	8,80,000	–	By Goods in transit			44,000
To Gross profit c/d	3,40,000	1,64,000	5,02,545	By Closing stock:			
				Processed goods	56,000	2,08,000	2,64,000
				Unprocessed goods	1,00,000	–	1,00,000
	23,60,000	**10,44,000**	**25,22,545**		**23,60,000**	**10,44,000**	**25,22,545**
To Admn. Expenses	1,39,000	15,000	1,54,000	By Gross profit b/d	3,40,000	1,64,000	5,02,545
To Selling Expenses	50,000	6,200	56,200				
To Stock shortage	–	16,000	14,545				
To Stock reserve	22,909	–	22,909				
To Net profit	1,28,091	1,26,800	2,54,891				
	3,40,000	**1,64,000**	**5,02,545**		**3,40,000**	**1,64,000**	**5,02,545**

(4 Marks)

Balance Sheet as at 31st March, 2013

Liabilities		**Rs.**	**Assets**		**Rs.**
Capital	3,10,000		Debtors		
Add: Net profit	2,54,891		H.O.		3,09,600
	5,64,891		Branch		1,13,600
Less: Drawings	(55,000)	5,09,891	Closing stock:		
Creditors:			Processed goods		
H.O.	6,01,400		H.O.	56,000	
Branch	10,800	6,12,200	Branch	2,08,000	
				2,64,000	
			Less: Stock		

	reserve	18,909	2,45,091
	Unprocessed goods		1,00,000
	Bank Balance		
	H.O.		1,52,000
	Branch		77,500
	Goods in transit	44,000	
	Less: Stock reserve	4,000	40,000
	Cash in transit		84,300
11,22,091			11,22,091

(3 Marks)

Working Notes:

1. Calculation of closing stock:

Stock at Head Office:

	Rs.	
Cost of goods processed Rs. (19,69,500 + 50,500 – 1,00,000)	19,20,000	
Less: Cost of goods sent to Branch		
9,24,000 x $\frac{100}{110}$	8,40,000	
Cost of goods sold 12,80,000 x $\frac{100}{125}$	10,24,000	18,64,000
Stock of processed goods with H.O.		56,000

(1 Mark)

Stock at Branch:

		Rs.
Goods received from H.O. (at invoice price)		8,80,000
Less: Invoice value of goods sold		
8,20,000 x $\frac{100}{125}$	6,56,000	
Invoice value of stock shortage 20,000 x $\frac{100}{125}$	16,000	(6,72,000)
Stock at Branch at invoice price		2,08,000
Less: Stock Reserve 2,08,000 x $\frac{10}{110}$		(18,909)
Stock of processed goods with Branch (at cost)		1,89,091

(1 Mark)

2. Stock Reserve:

	Rs.
Unrealised profit on Branch stock $\left(2,08,000 x \frac{10}{110}\right)$	18,909
Unrealised profit on goods in transit $\left(44,000 x \frac{10}{110}\right)$	4,000
	22,909

(1 Mark)