SUGGESTED SOLUTION

IPCC NOVEMBER 2016 EXAM

DIRECT TAX

Test Code - I N J1 0 9 4

BRANCH - (AHMEDABAD) (Date : 03.07.2016)

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Answer-1 (a) :

As per AS 13 'Accounting for Investments', where long-term investments are reclassified as currentinvestments, transfers are made at the lower of cost and carrying amount at the date of transfer.And where investments are reclassified from current to long term, transfers are made at lower ofcost and fair value on the date of transfer.

Accordingly, the re-classification will be done on the following basis:

(i) In this case, carrying amount of investment on the date of transfer is less than the cost; hencethis re-classified current investment should be carried at Rs. 6.5 lakhs in the books.

(ii) The carrying / book value of the long term investment is same as cost i.e. Rs. 7 lakhs. Hencethis long term investment will be reclassified as current investment at book value of Rs. 7 lakhsonly.

(iii) In this case, reclassification of current investment into long-term investments will be made at Rs. 10 lakhs as cost is less than its market value of Rs. 12 lakhs.

(iv) In this case, market value is Rs. 14 lakhs which is lower than the cost of Rs. 15 lakhs. Thereclassification of current investment as long-term investments will be made at Rs. 14 lakhs.

(4 Marks)

Answer-1 (b) :

Journal Entries

		Rs.	Rs.
Equity Share Capital (old) A/c	Dr.	10,00,000	
To Equity Share Capital (Rs. 10) A/c			6,00,000
To 10% Preference Share Capital A/c.			1,20,000
To 8% Debentures A/c			40,000
To Capital Reduction A/c			2,40,000
(Being new equity shares, 10% Preference Shares, 8% Debentures issued and the balance transferred to Reconstruction account as per the Scheme)			
Bank A/c	Dr.	1,00,000	
To 10% First Debentures A/c.			1,00,000
(Being allotment of 10% first Debentures)			
Capital Reduction A/c	Dr.	2,40,000	
To Goodwill Account			1,40,000
To Plant and Machinery Account			50,000
To Freehold Property Account			50,000
(Being Capital Reduction Account utilized for writing off of Goodwill, Plant and Machinery and Freehold property as per the scheme)			

(4 Marks)

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	6,40,000
	Total			**94,73,500**
	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**

(7 Marks)

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		10,00,000
	Total		**12,50,000**
8	**Trade receivables**		
	Outstanding for a period exceeding six months		2,60,000
	Other Amounts		7,40,000
	Total		**10,00,000**

9	**Cash and cash equivalents**		
	Cash at bank		
	with Scheduled Banks	12,25,000	
	with others (Global Bank Ltd.)	10,000	12,35,000
	Cash in hand		1,50,000
	Total		**13,85,000**

(5 Marks)

Answer-3 (a) :

Calculation of Average Due Date

Taking 10th March, 2011 as the base date.

Due date 2011	Amount Rs.	No. of days from the base date i.e. 10th March, 2011	Product Rs.
10th March	5,000	0	0
2nd April	18,000	23	4,14,000
30th April	60,000	51	30,60,000
10th June	2,000	92	1,84,000
	85,000		**36,58,000**

(2 Marks)

Average due date =Base date+ Days equal to $\frac{\text{Total of products}}{\text{Total amount}}$

= 10th March + $\frac{\text{Rs.}36,58,000}{\text{Rs.}85,000}$

= 10th March + 43 days =22nd April, 2011

(1 Mark)

Interest amount: Interest can be calculated on Rs. 85,000 after 22nd April, 2011 to 30th June,2011 at 10% p.a. i.e. interest on Rs. 85,000 for 69 days at 10%.
=Rs. 85,000 x 10/100 x 69/365 = Rs. 1,607 (approx.)

(1 Mark)

Answer-3 (b) :

Creditors Ledger Adjustment Account in the General Ledger for month of March, 2014

2014		Rs.	2014		Rs.
March 1	To Balance b/d (Advance to Akash)	4,500	March 1	By Balance b/d (Due to Mr. Dev)	2,500
March 31	To General Ledger Adjustment A/c (In Bought Ledger)		March 31	By General Ledger Adjustment A/c (in Bought Ledger)	
	Bank (WN 2)	16,440		Purchases (WN 1)	23,200
	Returns (Akash)	1,000			
	Discount(5% of 5,200)	260			
March 31	To Balance c/d (Due to Nathan)	3,500			
		25,700			**25,700**

(4 Marks)

Note: The above answer is given on the basis that Mr. Prem will pay in cash as the sale wason cash basis and was not recorded in Creditors Ledger Adjustment account earlier.

Working Notes:

(1) Purchases:

1.3.2013	Akash	7,500

14.3.2013	Akash	6,200
26.3.2013	Giridhar	6,000
29.3.2013	Nathan	3,500
		23,200

(2) Payments:

3.3.2013	Akash	3,000
10.3.2013	Dev	2,500
12.3.2013	Giridhar	6,000
24.3.2013	Akash (95% of 5,200)	4,940
		16,440

(2 Marks)

Answer-4 :

Park View Club
Income and Expenditure Account
for the year ending on 31st March 2012

Expenditure		**Amount (Rs.)**	**Income**		**Amount (Rs.)**
To Salaries		2,08,000	By Subscriptions (W.N. 2)		2,25,000
To Stationery consumed (W.N.3)		36,000	By Profit on sports meet		1,55,000
To Rent		60,000	By Income on investments	1,00,000	
To Telephone expenses	10,000		Add: Income accrued	3,750	1,03,750
Add: Outstanding on 31.3.12	3,500	13,500			
To Sundry expenses	92,500				
Less: Outstanding on 31.3.11	(7,000)	85,500			
To Depreciation of building		50,000			
To Surplus (excess of income over expenditure)		30,750			
		4,83,750			**4,83,750**

(3 Marks)

Balance Sheet as at 31st March 2012

Liabilities		**Amount(Rs.)**	**Assets**		**Amount (Rs.)**
Capital fund (W.N.1)	31,05,500		Outstanding subscriptions		14,500
Add: Surplus	30,750	31,36,250	Investment (20,00,000+1,25,000)	21,25,000	
Subscriptions received inadvance		7,500	Add: Interest accrued on investments	3,750	21,28,750
Outstanding telephone bills		3,500	Building	10,00,000	
			Less: Depreciation	(50,000)	9,50,000
			Stock of stationery		9,000
			Cash balance		45,000
		31,47,250			**31,47,250**

(3 Marks)

Working Notes:

(1) Balance Sheet as at 31st March 2011

Liabilities	**Amount(Rs.)**	**Assets**	**Amount (Rs.)**
Outstanding sundry expenses	7,000	Building	10,00,000
Capital fund (Bal.fig.)	31,05,500	Investments	20,00,000
Stock of stationery	5,000	Cash balance	1,02,500

		Outstanding subscriptions	5,000
	31,12,500		**31,12,500**

(1 Mark)

(2) Calculation of subscriptions accrued during the year

Subscription A/c

Particulars	**Amount(Rs.)**	**Particulars**	**Amount(Rs.)**
To Outstanding Subscriptions (as on 1.4.11)	5,000	By Cash A/c.	2,23,000
		By Outstandingsubscriptions (as on 31.3.12) (Bal.fig.)	14,500
To Income & Expenditure A/c	2,25,000		
To Subscriptions received in advance for 2012-13	7,500		
	2,37,500		**2,37,500**

(1 Mark)

(3) Calculation of stationery consumed during the year

	Rs.
Stock of stationery as on 31 March, 2011	5,000
Add: Purchased during the year 2011-12	40,000
	45,000
Less: Stock of stationery as on 31st March, 2012	(9,000)
Stationery consumed	36,000

Answer-5 (a) :

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 Ac.	–	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	**13,388**	**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	$\frac{1,18,000}{1,20,000} x 40,000 =$	39,333
Purchased on 1st March	20,000		19,600
Purchased on 1st October	15,000		14,700
	75,000		73,633

(2 Marks)

Answer-5 (b) :

Computation of loss of profit for insurance claim

(1) Rate of gross profit

$$\frac{\text{Net Profit for the last financial year + Insured standing charges}}{\text{Turnover for the last financial year}} \times 100$$

$= \frac{\text{Rs.1,20,000+Rs.2,40,000}}{\text{Rs.20,00,000}} \times 100$	18%
Add: Adjustment for increase in gross profit rate=	2%
	20%

(1 Mark)

(2) Calculation of short sales:

	Rs.
Turnover from 1.9.2009 to 1.3.2010	7,50,000
Add: Adjustment for increase in turnover @ 10%	75,000
Adjusted turnover	8,25,000
Less: Actual turnover from 1.9.2010 to 1.3.2011	2,25,000
Short sales	6,00,000

(1 Mark)

(3) Additional expenses:

	Rs.
(i) Actual expenses	40,000
(ii) Gross profit on sale generated by additional expenses [(20/100)x Rs. 1,00,000]	20,000

(iii) Additonal expeses x $\frac{\text{Gross profit on annual adjusted turnover}}{\text{Gross profit on annual adjusted turnover + Uninsured standing charges}}$

$= \text{Rs.40,000 x } \frac{\text{20\% on Rs.24,20,000*}}{(\text{20\% on Rs.24,20,000}) + Rs.20,000}$

$= \text{Rs.40,000x}\frac{\text{Rs.4,84,000}}{\text{Rs.5,04,000}} \text{=Rs.38,413}$

(2 Marks)

Least of the above three figures i.e. Rs. 20,000 is allowable.

* Rs. 22,00,000 x (110/100)

(4) Amount of claim before application of average clause

	Rs.
Gross profit on short sales (20% on Rs. 6,00,000)	1,20,000
Add: Allowable additional expenses	20,000
	1,40,000
Less: Saving in insured standing charges	(15,000)
	1,25,000

(1 Mark)

(5) Application of average clause

	Rs.
Annual turnover i.e. turnover from 1.9.2009 to 31.8 2010	22,00,000
Add: Adjustment for increase in turnover (10% of Rs. 22,00,000)	2,20,000
	24,20,000
Gross profit on annual adjusted turnover (20% on Rs. 24,20,000)	4,84,000
Loss of profit policy value	3,63,000

(1 Mark)

Since the policy-value is less than gross profit on adjusted annual turnover, the averageclause is applicable.

Hence the amount of claim = Rs. 1,25,000 x (Rs. 3,63,000/Rs. 4,84,000)
= Rs. 93,750