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IPCC NOVEMBER 2016 EXAM

ACCOUNTS

Test Code - I N J 1 0 9 9

BRANCH - (MUMBAI) (Date :10.07.2016)

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Answer-1 :

(i) Calculation of the number of equity shares and preference shares to be allotted by Careful Ltd. in discharge of purchase consideration

Calculation of purchase consideration:	**Rs.**
Agreed value of assets taken over:	
Bills receivable	15,000
Freehold premises	4,00,000
Furniture & fittings	80,000
Machinery	1,60,000
Stock	3,45,000
	10,00,000

(2 Marks)

Discharge of purchase consideration:

1. Amount paid by allotment of 13% preference shares

$= \text{Rs. } 10,00,000 \times \frac{1}{4}$

= Rs. 2,50,000

Number of 13% preference shares of Rs. 100 each

$= \frac{2,50,000}{100} = 2,500$ preference shares

2. Amount paid by allotment of equity shares

= Rs. 10,00,000 – Rs. 2,50,000 = Rs. 7,50,000

Paid up value of one equity share = Rs. 8 each

Hence, the number of equity shares allotted

$= \frac{Rs.7,50,000}{Rs.8} = 93,750$equity shares

(2 x 1 = 2 Marks)

(ii) Ledger accounts in the books of Reckless Ltd.

Realisation Account

	Rs.		**Rs.**
To Freehold Premises	2,20,000	By Creditors	1,13,000
To Machinery	1,77,000	By Acceptances	20,000
To Furniture & Fittings	90,800	By Provision for tax	1,10,000
To Stock	3,87,400	By Provision for doubtful debts	4,000
To Sundry Debtors	80,000	By Careful Ltd.	10,00,000
To Bills Receivable	15,000	By Cash/Bank:	
To Cash/ Bank:		Sundry Debtors	79,500
Acceptances	19,000		
Provision for tax	1,11,600		
Creditors	1,03,700		
To Cash/Bank			
Liquidation expenses	4,000		
To Profit	1,18,000		
	13,22,500		**13,22,500**

(2 Marks)

Cash and Bank Account

	Rs.		**Rs.**
To Balance b/d		By Realisation A/c	
(cash at bank)	1,56,500	Acceptances	19,000

	Rs.		Rs.
To Cash in hand	2,300	Provision for tax	1,11,600
To Realisation A/c (Debtors)	79,500	By Realisation (Expenses)	4,000
		By Realisation A/c [Creditors (bal fig.)]	1,03,700
	2,38,300		**2,38,300**

(2 Marks)

Equity Shareholders Account

	Rs.		Rs.
To 13% Cumulativepreference shares in Careful Ltd.	2,50,000	By Equity Share Capital	6,00,000
To Equity Shares inCareful Ltd.	7,50,000	By Pre-incorporation profit	21,000
		By Contingency reserve	1,35,000
		By Profit & Loss Appropriation Account	1,26,000
		By Realisation Account	1,18,000
	10,00,000		**10,00,000**

(2 Marks)

Careful Ltd. Account

	Rs.		Rs.
To Realisation Account	10,00,000	By 13% Cumulative preference shares in Careful Ltd.	2,50,000
		By Equity shares in Careful Ltd.	7,50,000
	10,00,000		**10,00,000**

(1 Mark)

(iii) Journal Entries in the books of Careful Ltd.

		Rs.	Rs.
Business purchase Account	Dr.	10,00,000	
To Liquidator of Reckless Ltd. Account			10,00,000
(Being amount payable to liquidator of Reckless Ltd. for assets taken over)			
Bills receivable Account	Dr.	15,000	
Freehold premises Account	Dr.	4,00,000	
Furniture & fittings Account	Dr.	80,000	
Machinery Account	Dr.	1,60,000	
Stock Account	Dr.	3,45,000	
To Business purchase Account			10,00,000
(Being assets taken over from Reckless Ltd.)			
Liquidator of Reckless Ltd.	Dr.	10,00,000	
To 13% Cumulative preference share capital Account			2,50,000
To Equity share capital Account			7,50,000
(Being allotment of 13% cumulative preference shares of Rs.100 each fully paid up and equity shares of Rs.10 each Rs.8 paid up)			

(5 Marks)

Answer-2 :

In the Books of Moonlight Traders
Trading Account for the year ended 31.03.2014

Particulars	Rs.	Particulars	Rs.
To Opening Stock A/c (Bal. fig.)	1,65,000	By Sales (W.N.1)	12,50,000
To Purchases (W.N.2) 9,00,000		By Closing Stock	65,000
To Gross profit (12,50,000 x 25/125)	2,50,000		
	13,15,000		**13,15,000**

Profit and Loss Account for the year ended 31.03.2014

Particulars		Rs.	Particulars	Rs.
To Discount		5,500	By Gross profit	2,50,000
To Salaries Expenses		32,000	By Discount	4,500
To Office expenses (W.N.3)		37,000		
To Selling expenses		15,000		
To Interest on loan (12% on Rs. 1,25,000)		15,000		
To Bad debts (2% of Rs. 2,25,000)		4,500		
To Loss on sale of Machinery		15,000		
To Depreciation:				
Land & Building	25,000			
Plant & Machinery(W.N 4b)	23,750			
Office Equipment (W.N. 5)	12,750	61,500		
To Tax Provision* (69,000 x 30%)		20,700		
To Net profit after tax		48,300		
		2,54,500		**2,54,500**

* Alternatively, the entire provision for tax as on 31.3.2013 of Rs. 35,000 has been assumed to be paid during
the year. In that case Working Note 10 will not be required and profit and loss account will show Rs. 30,000 asprovision for 31.3.2014 instead of Rs. 20,700.

Balance sheet as on 31.3.2014

Liabilities	Rs.	Rs.	Assets	Rs.
Capital (W.N. 6)	8,95,500		Land and Building (5,00,000 -25,000)	4,75,000
Add: Net Profit	48,300	9,43,800		
Creditors forPurchases (W.N. 8)		1,05,500	Plant and Machinery (W.N.4a)	
Outstanding expenses		15,000	(3,30,000-21,750)	3,08,250
Loan from SBI		1,00,000	Office Equipment (85,000-12,750)	72,250
			Debtors less Bad debts (W.N. 7)	2,20,500
Tax Provision		30,000	Stock	65,000
			Bank Balance (W.N. 9)	53,300
		11,94,300		**11,94,300**

Working Notes:

1. Calculation of Total Sales

	Rs.
Cash Sales	2,50,000
Credit Sales (80% of total sales)	
Cash Sales (20% of total sales)	
Thus total Sales (2,50,000*100/20)	12,50,000

Credit Sales (12,50,000*80/100)	10,00,000

2. Calculation of Total Purchases

	Rs.
Credit Purchases	5,40,000
Cash Purchases (40% of total purchases)	
Credit Purchases (60% of total purchases)	
Thus total Purchases (5,40,000 x 100/60)	9,00,000
Cash Purchases (9,00,000 x 40/100)	3,60,000

3. Office Expenses Account

	Rs.		Rs.
To Bank A/c	42,000	By Balance b/d	20,000
To Balance c/d	15,000	By Profit & loss A/c	37,000
	57,000		**57,000**

4. (a) Plant and Machinery Account

	Rs.		Rs.
To Opening balance	2,20,000	By Bank (Sale)	40,000
To Bank (Purchases)	1,50,000	By Closing Balance	3,30,000
	3,70,000		**3,70,000**

(b) Calculation of Depreciation on Plant & Machinery

		Rs.
Depreciation on	1,80,000 x 10% (for full year)	18,000
	1,50,000* x 10% x 3/12 (for 3 months)	3,750
	40,000 x 10% x 6/12 (for 6 months)	2,000
		23,750

* [3,30,000 Less (2,20,000 – 40,000)]

(c) Sale of Machinery Account

	Amount (Rs.)		Amount (Rs.)
To Plant &Machinery	40,000	By Depreciation	2,000
		By Profit and Loss A/c	15,000
		By Bank (bal.fig.)(Sale)	23,000
	40,000		**40,000**

5. Calculation of Depreciation on Office Equipments

	Rs.
Opening Balance	1,05,000
Less: Closing Balance	85,000
Sale of Office Equipments	20,000
Balance of Office Equipments after sale on 01.04.2013	85,000
Depreciation @15%	12,750

6. Opening Balance Sheet as on 31.03.2013

	Rs.		Rs.
Creditors	95,000	Land & Building	5,00,000
Creditor for Exp.	20,000	Plant & Machinery	2,20,000
Loan	1,25,000	Office Equipment	1,05,000
Provision for Tax	35,000	Debtors (W.N. 7)	1,55,500
Capital (Bal. fig.)	8,95,500	Stock (from Trading A/c)	1,65,000
		Bank	25,000
	11,70,500		**11,70,500**

7. Sundry Debtors A/c

	Rs.		Rs.
To Balance b/d (bal. fig.)	1,55,500	By Bank	9,25,000
To Sales	10,00,000	By Discount	5,500
		By Bad debts	4,500
		By Bal. c/d	2,20,500
	11,55,500		**11,55,500**

8. Sundry Creditors A/c

	Rs.		Rs.
To Bank	5,25,000	By Balance b/d	95,000
To Discount	4,500	By Purchases	5,40,000
To Balance c/d (bal. fig.)	1,05,500		
	6,35,000		**6,35,000**

9. Bank Account

	Rs.		Rs.
To Balance b/d	25,000	By Creditors	5,25,000
To Debtors	9,25,000	By Office Expenses	42,000
To Cash Sales	2,50,000	By Salary Expense	32,000
To Sale of Machinery (W.N. 4c)	23,000	By Selling Expenses	15,000
To Sale of equipment	20,000	By Purchases (cash)	3,60,000
		By Purchase of Machinery	1,50,000
		By Bank Loan & Interest(W.N. 11)	40,000
		By Tax (W.N. 10)	25,700
		By Balance c/d (bal. fig.)	53,300
	12,43,000		**12,43,000**

10. Provision for Tax Account

	Rs.		Rs.
To Bank (bal. fig.)	25,700	By Balance b/d	35,000
To Balance c/d	30,000	By Profit and Loss A/c	20,700

	55,700	55,700

11. Repayment of Bank Loan and interest

	Rs.
Interest 1,25,000 x 12%	15,000
Loan (1,25,000 – 1,00,000)	25,000
	40,000

Note:

The above solution has been worked out on the basis of the following assumptions:-

(i) Tax profits are the same as accounting profits.

(ii) The figure of Rs. 2,25,000, being the closing balance of Sundry Debtors as given in thequestion is before providing for bad debts. Accordingly, the closing balance has beenreduced by the amount of bad debts.

Answer-3 (a) :

Ratio of interest and amount due = $\frac{\text{Rate of interest}}{100+\text{Rate of interest}} = \frac{10}{110} = 1/11$.

(1 Mark)

There is no interest element in the down payment as it is paid on the date of thetransaction. Instalments paid after certain period includes interest portion also.Therefore, to ascertain cash price, interest will be calculated from last instalment to firstinstalment 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	4,40,000	1/11 of Rs. 4,40,000 =Rs. 40,000	4,00,000
2nd	8,40,000	1/11 of Rs. 8,40,000= Rs. 76,364	7,63,636
1st	12,03,636	1/11of Rs. 12,03,636= Rs. 1,09,421	10,94,215

(3 Marks)

Total cash price = Rs. 10,94,215 + 4,80,000 (down payment) =Rs. 15,74,215.

Answer-3 (b) :

9% Central Government Bonds A/c. in the books of Akash

Date	Particulars	Face Value	Interest	Amount	Date	Particulars	Face Value	Interest	Amount
2014					**2014**				
Jan.01	To Balance b/d	60,000	1,350	59,000	Mar.31	By Bank A/c.	-	3,150	-
Mar.01	To Bank A/c.	10,000	375	10,000	Jul.01	By Bank A/c.	25,000	563	25,000
Jul.01	To P & L A/c.	-	-	417	Sep.30	By Bank A/c.	-	2,025	-
Oct.01	To Bank A/c.	7,500	-	7,350	Nov.01	By Bank A/c.	15,000	112	14,850
Nov.01	To P & L A/c.	-	-	100	Dec.31	By Balance c/d	37,500	844	37,017
Dec.31	To P & L A/c. Transfer	-	4,969	-					
		77,500	**6,694**	**76,867**			**77,500**	**6,694**	**76,867**

Working Note:

Calculation of closing balance

Bonds in hand on 31.12.2014

	Face Value	Cost
From original holding		
(60,000 – 25,000 – 15,000)	20,000	19,667
(59,000/60,000 x 20,000)		
Purchased on 1st March	10,000	10,000
Purchased on 1st October	7,500	7,350
	37,500	37,017

(4 Marks)

Answer-4 :

M/s DEF & CO.
Memorandum Trading A/c
(1.4.14 to 13.9.14)

Particulars	**(Rs.)**	**Particulars**	**(Rs.)**
To Opening stock (Refer W.N.)	9,60,000	By Sales	45,98,200
To Purchases	35,49,900	By goods with customer	18,750
To Gross profit (25% of sales)	11,49,550	By Closing stock (bal. fig.)	10,42,500
	56,59,450		**56,59,450**

(2 Marks)

Computation of insurance claim

		Rs.
Stock on the date of fire (i.e. on 13.09.2014)		10,42,500
Less: Stock salvaged	40,000	
Agreed value of damaged stock	20,000	(60,000)
Loss of stock		9,82,500

(2 Marks)

Claim subject to average clause:

Insurance claim $= \dfrac{\text{Loss of stock}}{\text{Value of stock on the date of fire}} \times \text{Amount of policy}$

$= 9{,}00{,}000/10{,}42{,}500 \times 9{,}82{,}500 = \text{Rs.}8{,}48{,}201$

(1 Mark)

Working Notes:

1. Calculation of original cost of the stock as on 31st March, 2014

Stock as on 31st March, 2014 was valued at 10% lower than cost.
Hence, original cost of the stock would be Rs. 9,60,000 (8,64,000/90 x 100)

2. Purchases for the period of 1.4.14 to 13.9.14

	Rs.
Purchases	35,29,900
Add: purchases where goods have been received in godown although purchase invoice had not been received	60,000
Less: Purchase of machinery included in purchases	40,000
	35,49,900

3. Sales for the period of 1.4.14 to 13.9.14

	Rs.
Sales	46,93,200
Less: goods not been dispatched	70,000
Less: goods sent on approval basis but not yet confirmed	25,000
	45,98,200

(3 Marks)

4. Goods with customer on 13.9.14

Since no approval for sale has been received for the goods for Rs. 25,000
These should be valued at cost i.e. 25,000 – 25,000 x 25/100 = 18,750