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**IPCC NOVEMBER 2016 EXAM**

**ACCOUNTS**

**Test Code - I N J1 1 2 7**

**BRANCH - (MULTIPLE) (Date : 25.09.2016)**

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**Answer-1 (a) :**

As per AS 13 'Accounting for Investments', for investment in shares - if the investment is purchased with an intention to hold for short-term period then it will be shown at the realizable value of Rs. 2,25,000 as on 31<sup>st</sup> March, 2015.

If equity shares are acquired with an intention to hold for long term period then it will continue to be shown at cost in the Balance Sheet of the company. However, provision for diminution shall be made to recognize a decline, if other than temporary, in the value of the investments.

As per the standard, investment acquired for long term period shall be shown at cost. Gold and silver are generally purchased with an intention to hold it for long term period until and unless given otherwise. Hence, the investment in Gold and Silver (purchased on 1<sup>st</sup> March, 2009) shall continue to be shown at cost as on 31<sup>st</sup> March, 2015 i.e., Rs. 4,00,000 and Rs. 2,00,000 respectively, though their realizable values have been increased.

**(4 Marks)****Answer-1 (b) :****(i) Total Depreciation to be charged in the Profit and Loss Account**

|   | <b>Rs.</b>    |
|---|---------------|
| Depreciation on old machinery in use [10% of (5,60,000-1,60,000)] | 40,000        |
| Add: Depreciation on new machine @ 10% for six months             |               |
| $\left( 1,50,000 \times 10\% \times \frac{6}{12} \right)$         | <u>7,500</u>  |
| Total depreciation on machinery in use                            | 47,500        |
| Add: Depreciation on machine disposed of (10% for 6 months)       |               |
| $\left( 1,60,000 \times 10\% \times \frac{6}{12} \right)$         | <u>8,000</u>  |
| So, total depreciation to be charged in Profit and Loss A/c       | <u>55,500</u> |

**(ii) Loss on Exchange of Machine**

|                                       | <b>Rs.</b>        |
|---------------------------------------|-------------------|
| Book value of machine as on 1.4.2014  | 1,60,000          |
| Less: Depreciation for 6 months @ 10% | <u>(8,000)</u>    |
| Written Down Value as on 30.9.2014    | 1,52,000          |
| Less: Exchange value                  | <u>(1,35,000)</u> |
| Loss on exchange of machine           | <u>17,000</u>     |

**(iii) Book Value of Machinery in the Balance Sheet as on 31.03.2015**

|  | <b>Rs.</b>        |
|--|-------------------|
| Balance as per trial balance           | 5,60,000          |
| Less: Book value of machine sold       | <u>(1,60,000)</u> |
|  | 4,00,000          |
| Add: Purchase of new machine           | <u>1,50,000</u>   |
|  | 5,50,000          |
| Less: Depreciation on machinery in use | <u>(47,500)</u>   |
|  | <u>5,02,500</u>   |

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

As per AS 9 'Revenue Recognition', revenue is the gross inflow of cash, receivable or other consideration arising in the course of the ordinary activities of an enterprise from the sale of goods. However, trade discounts and volume rebates given in the ordinary course of business should be deducted in determining revenue. Revenue from sales should be recognized at the time of transfer of significant risks and rewards. If the delivery of the sales is not subject to approval from customers, then the transfer of significant risks and rewards would take place when the sale is affected and goods are dispatched.

In the given case, if trade discounts allowed by M/s. Moon Ltd. are given in the ordinary course of business, M/s. Moon Ltd. should record the sales at Rs. 5,97,000 (i.e. Rs. 6,50,000 – Rs. 53,000) and goods returned worth Rs. 67,000 are to be recorded in the form of sales return. However, when trade discount

allowed by M/s. Moon Ltd. is not in the ordinary course of business, M/s. Moon Ltd. should record the sales at gross value of Rs. 6,50,000. Discount of Rs. 53,000 in price and return of goods worth Rs. 67,000 are to be adjusted by suitable provisions. M/s Moon Ltd. might have sent the credit note of Rs. 1,20,000 to Mr. Star to account for these adjustments. In both the cases, the contention of the accountant to book the sales for Rs. 5,30,000 is not correct.

(5 Marks)

**Answer-1 (d) :**

In accordance with paras 8 & 9 of AS 2, the cost of conversion include a systematic allocation of fixed and variable overheads that are incurred in converting materials into finished goods. The allocation of fixed overheads for the purpose of their inclusion in the cost of conversion is based on normal capacity of the production facilities.

**Cost per kg. of finished goods:**

|   |           | Rs.        |
|---|-----------|------------|
| Material Cost   |           | 200        |
| Direct Labour   | 40        |            |
| Direct Variable Production Overhead                                 | 20        |            |
| Fixed Production Overhead $\left(\frac{20,00,000}{2,00,000}\right)$ | <u>10</u> | <u>70</u>  |
|   |           | <u>270</u> |

Hence the value of 4,000 kgs. of finished goods = 4,000 kgs x Rs. 270 = Rs. 10,80,000

(5 Marks)

**Answer-2 :**

**Journal Entries**

|  |     | Rs.       | Rs.       |
|--|-----|-----------|-----------|
| Bank A/c   | Dr. | 10,00,000 |           |
| To Equity share capital A/c  |     |           | 10,00,000 |
| (Being money on final call received)   |     |           |           |
| Equity share capital (Rs. 50) A/c  | Dr. | 75,00,000 |           |
| To Equity share capital (Rs. 40) A/c   |     |           | 60,00,000 |
| To Capital Reduction A/c   |     |           | 15,00,000 |
| (Being conversion of equity share capital of Rs. 50 each into Rs. 40 each as per reconstruction scheme)                  |     |           |           |
| Bank A/c   | Dr. | 12,50,000 |           |
| To Equity Share Capital A/c  |     |           | 12,50,000 |
| (Being new shares allotted at Rs. 40 each)   |     |           |           |
| Trade Creditors A/c  | Dr. | 12,40,000 |           |
| To Equity share capital A/c  |     |           | 7,50,000  |
| To Bank A/c (4,90,000 x 70%)   |     |           | 3,43,000  |
| To Capital Reduction A/c   |     |           | 1,47,000  |
| (Being payment made to creditors in shares or cash to the extent of 70% as per reconstruction scheme)                    |     |           |           |
| 8% Debentures A/c  | Dr. | 3,00,000  |           |
| 12% Debentures A/c   | Dr. | 4,00,000  |           |
| To Shiv A/c  |     |           | 7,00,000  |
| (Being cancellation of 8% and 12% debentures of Shiv)  |     |           |           |
| Shiv A/c   | Dr. | 8,00,000  |           |
| To 15% Debentures A/c  |     |           | 6,00,000  |
| To Capital Reduction A/c   |     |           | 2,00,000  |
| (Being issuance of new 15% debentures and balance transferred to capital reduction account as per reconstruction scheme) |     |           |           |

|   |     |           |           |
|---|-----|-----------|-----------|
| Bank A/c  | Dr. | 1,00,000  |           |
| To Shiv A/c   |     |           | 1,00,000  |
| (Being new debentures subscribed by Shiv)   |     |           |           |
| 8% Debentures A/c   | Dr. | 1,00,000  |           |
| 12% Debentures A/c  | Dr. | 2,00,000  |           |
| To Ganesh A/c   |     |           | 3,00,000  |
| (Being cancellation of 8% and 12% debentures of Ganesh)   |     |           |           |
| Ganesh A/c  | Dr. | 3,00,000  |           |
| To 15% Debentures A/c   |     |           | 2,50,000  |
| To Capital Reduction A/c  |     |           | 50,000    |
| (Being issuance of new 15% debentures and balance transferred to capital reduction account as per reconstruction scheme)            |     |           |           |
| Land and Building<br>(51,84,000 – 42,70,000)  | Dr. | 9,14,000  |           |
| Inventories   | Dr. | 30,000    |           |
| To Capital Reduction A/c  |     |           | 9,44,000  |
| (Being value of assets appreciated)   |     |           |           |
| Outstanding expenses A/c  | Dr. | 10,60,000 |           |
| To Bank A/c   |     |           | 10,60,000 |
| (Being outstanding expenses paid in cash)   |     |           |           |
| Capital Reduction A/c   | Dr. | 33,41,000 |           |
| To Machinery A/c  |     |           | 1,30,000  |
| To Computers A/c  |     |           | 1,20,000  |
| To Trade receivables A/c  |     |           | 1,09,000  |
| To Goodwill A/c   |     |           | 22,00,000 |
| To Profit and Loss A/c  |     |           | 7,82,000  |
| (Being amount of Capital Reduction utilized in writing off P & L A/c (Dr.) balance, goodwill and downfall in value of other assets) |     |           |           |
| Capital Reserve A/c   | Dr. | 5,00,000  |           |
| To Capital Reduction A/c  |     |           | 5,00,000  |
| (Being debit balance of capital reduction account adjusted against capital reserve)   |     |           |           |

(6 Marks)

**Balance Sheet (as reduced) as on 31.3.2014**

| Particulars                   |                                | Notes | Rs.                     |
|-------------------------------|--------------------------------|-------|-------------------------|
| <b>Equity and Liabilities</b> |                                |       |                         |
| <b>1</b>                      | <b>Shareholders' funds</b>     |       |                         |
| a                             | Share capital                  | 1     | 80,00,000               |
| <b>2</b>                      | <b>Non-current liabilities</b> |       |                         |
| a                             | Long-term borrowings           | 2     | <u>8,50,000</u>         |
|                               | <b>Total</b>                   |       | <b><u>88,50,000</u></b> |
| <b>Assets</b>                 |                                |       |                         |
| <b>1</b>                      | <b>Non-current assets</b>      |       |                         |
| a                             | Fixed assets                   |       |                         |
|                               | Tangible assets                | 3     | 63,04,000               |
| <b>2</b>                      | <b>Current assets</b>          |       |                         |

|              |                           |                         |
|--------------|---------------------------|-------------------------|
| a            | Inventories               | 3,50,000                |
| b            | Trade receivables         | 9,81,000                |
| c            | Cash and cash equivalents | <u>12,15,000</u>        |
| <b>Total</b> |                           | <b><u>88,50,000</u></b> |

(4 Marks)

**Notes to accounts**

|  |                 |  |           |
|--|-----------------|--|-----------|
|  |                 |  | Rs..      |
| <b>1. Share Capital</b>                |                 |  |           |
| 2,00,000 Equity shares of Rs. 40       |                 |  | 80,00,000 |
| <b>2. Long-term borrowings</b>         |                 |  |           |
| Secured                                |                 |  |           |
| 15% Debentures (assumed to be secured) |                 |  | 8,50,000  |
| <b>3. Tangible assets</b>              |                 |  |           |
| Land & Building                        | 51,84,000       |  |           |
| Machinery                              | 7,20,000        |  |           |
| Computers                              | <u>4,00,000</u> |  | 63,04,000 |

(2 Marks)

**Working Notes:**

**1. Cash at Bank Account**

| Particulars                 | Rs.              | Particulars                 | Rs.              |
|-----------------------------|------------------|-----------------------------|------------------|
| To Balance b/d              | 2,68,000         | By Trade Creditors A/c      | 3,43,000         |
| To Equity Share capital A/c | 10,00,000        | By Outstanding expenses A/c | 10,60,000        |
| To Equity Share Capital A/c | 12,50,000        | By Balance c/d (bal. fig.)  | 12,15,000        |
| To Shiv A/c                 | 1,00,000         |                             |                  |
|                             | <b>26,18,000</b> |                             | <b>26,18,000</b> |

(2 Marks)

**2. Capital Reduction Account**

| Particulars              | Rs.              | Particulars                 | Rs.              |
|--------------------------|------------------|-----------------------------|------------------|
| To Machinery A/c         | 1,30,000         | By Equity Share Capital A/c | 15,00,000        |
| To Computers A/c         | 1,20,000         | By Trade Creditors A/c      | 1,47,000         |
| To Trade receivables A/c | 1,09,000         | By Shiv A/c                 | 2,00,000         |
| To Goodwill A/c.         | 22,00,000        | By Ganesh A/c               | 50,000           |
| To Profit and Loss A/c.  | 7,82,000         | By Land & Building          | 9,14,000         |
|                          |                  | By Inventories              | 30,000           |
|                          |                  | By Capital Reserve A/c      | 5,00,000         |
|                          | <b>33,41,000</b> |                             | <b>33,41,000</b> |

(2 Marks)

**Answer-3 (a) :**

**X Ltd.  
Cash Flow Statement  
for the year ended 31st March, 2015**

|   | Rs.      | Rs.       |
|---|----------|-----------|
| Cash flow from Operating Activities                   |          |           |
| Net profit before income tax and extraordinary items: |          | 20,00,000 |
| Adjustments for:                                      |          |           |
| Depreciation on fixed assets                          | 5,00,000 |           |

|   |                   |                    |
|---|-------------------|--------------------|
| Discount on issue of debentures                           | 30,000            |                    |
| Interest on debentures paid                               | 3,50,000          |                    |
| Interest on investments received                          | (60,000)          |                    |
| Profit on sale of investments                             | <u>(20,000)</u>   | <u>8,00,000</u>    |
| Operating profit before working capital changes           |                   | 28,00,000          |
| Adjustments for:  |                   |                    |
| Increase in inventory                                     | (1,18,000)        |                    |
| Decrease in trade receivable                              | 4,900             |                    |
| Increase in trade payables                                | 300               |                    |
| Increase in outstanding expenses                          | <u>6,800</u>      | <u>(1,06,000)</u>  |
| Cash generated from operations                            |                   | 26,94,000          |
| Income tax paid   |                   | <u>(10,50,000)</u> |
|   |                   | 16,44,000          |
| Cash flow from extraordinary items:                       |                   |                    |
| Compensation received in a suit filed                     |                   | <u>90,000</u>      |
| Net cash flow from operating activities                   |                   | 17,34,000          |
| Cash flow from Investing Activities                       |                   |                    |
| Sale proceeds of investments                              | 3,20,000          |                    |
| Interest received on investments                          | <u>60,000</u>     |                    |
| Net cash flow from investing activities                   |                   | 3,80,000           |
| Cash flow from Financing Activities                       |                   |                    |
| Proceeds by issue of equity shares at 20% premium         | 6,00,000          |                    |
| Redemption of preference shares at 5% premium             | (15,75,000)       |                    |
| Preference dividend paid                                  | (1,50,000)        |                    |
| Interest on debentures paid                               | (3,50,000)        |                    |
| Dividend paid (5,00,000 + 3,00,000)                       | <u>(8,00,000)</u> |                    |
| Net cash used in financing activities                     |                   | <u>(22,75,000)</u> |
| Net decrease in cash and cash equivalents during the year |                   | (1,61,000)         |
| Add: Cash and cash equivalents as on 31.3.2014            |                   | <u>1,96,300</u>    |
| Cash and cash equivalents as on 31.3.2015                 |                   | 35,300             |

**Note:** Purchase of land in exchange of equity shares (issued at 20% premium) has not been considered in the cash flow statement as it does not involve any cash transaction.

(8 Marks)

**Answer-3 (b) :**

**Computation of the value of goodwill:**

|  |               |                        |
|--|---------------|------------------------|
| <b>(i) Average Profit for three years, ending 30th June; before death:</b> |               |                        |
| <b>Year ending 30th June, 2012 :</b>                                       | <b>Rs.</b>    | <b>Rs.</b>             |
| 1/2 of 2011 profits  | 33,600        |                        |
| 1/2 of 2012 profits  | <u>37,800</u> | 71,400                 |
| <b>Year ending 30th June, 2013 :</b>                                       |               |                        |
| 1/2 of 2012 profits  | 37,800        |                        |
| 1/2 of 2013 profits  | <u>36,000</u> | 73,800                 |
| <b>Year ending 30th June, 2014 :</b>                                       |               |                        |
| 1/2 of 2013 profits  | 36,000        |                        |
| 1/2 of 2014 profits  | <u>31,200</u> | <u>67,200</u>          |
| <b>Total</b>   |               | <b><u>2,12,400</u></b> |
| <b>Average</b>   |               | <b><u>70,800</u></b>   |
| <b>(ii) Super Profit :</b>   |               | <b>Rs.</b>             |
| Average profits earned   |               | 70,800                 |
| Less : Partner's remuneration  | 45,000        |                        |
| Less : 8% on capital employed  | <u>12,480</u> | <u>(57,480)</u>        |
|  |               | <u>13,320</u>          |
| Super Profits  |               |                        |
| <b>(iii) Goodwill @ three years ' purchase (13,320 x 3)</b>                |               | 39,960                 |

(6 Marks)

**Adjustment entries for Goodwill****Journal Entries**

|  | Dr.<br>Rs. | Cr.<br>Rs. |
|--|------------|------------|
| Clever's Capital Account   | Dr. 7,992  |            |
| Dull's Capital Account   | Dr. 7,992  |            |
| To Wise's Capital Account  |            | 15,984     |
| (Being Wise's share of goodwill adjusted in the capital accounts of partners on the death of Mr. Wise in their gaining ratio.) |            |            |

(2 Marks)

**Answer-4 (a) :****Note:**—Cash Book must be prepared in order to find out the takings on account of cash sales.

**Columnar Cash Book**  
(for 3 months ending June 30, 1999)

| Particulars                      | Cash<br>Rs.  | Bank<br>Rs.   | Particulars                | Cash<br>Rs.  | Bank<br>Rs.   |
|----------------------------------|--------------|---------------|----------------------------|--------------|---------------|
| To Balance b/d                   | 50           | 600           | By Cash Purchases          | 950          |               |
| To Cheques from Credit Customers |              | 18,400        | By Sundry Expenses         | 650          | 1,540         |
| To Cash (lodgements)             |              | 6,570         | By Drawings                | 100          | 700           |
| To Takings (balancing figure)    | 8,270        |               | By Cheques to S. Creditors |              | 17,050        |
|                                  |              |               | By New Fittings            |              | 600           |
|                                  |              |               | By Bank (lodgments)        | 6,570        |               |
|                                  |              |               | By Balance c/d             | 50           | 5,680         |
|                                  | <b>8,320</b> | <b>25,570</b> |                            | <b>8,320</b> | <b>25,570</b> |
| To Balance b/d                   | 50           | 5,680         |                            |              |               |

(2 Marks)

(a) Premjit's Profit and Loss Account and Balance Sheet:

**Trading and Profit and Loss Account of Premjit for the three months ending June 30, 1999**

|  | Rs.    | Rs.           |  | Rs.    | Rs.           |
|--|--------|---------------|--|--------|---------------|
| To Opening Stock :                         |        | 14,700        | By Sales :                                 |        |               |
| To Purchases : Payments made               | 17,050 |               | Payments received                          | 18,400 |               |
| Add : Creditors as on 30.6.99              | 6,400  |               | Add : Debtors as on 30.6.1999              | 3,600  |               |
|  | 23,450 |               |  | 22,000 |               |
| Less : Creditors as on 31.3.99             | 6,200  |               | Less : Outstanding Debtors as on 31.3.1999 | 2,700  |               |
| Credit purchases                           | 15,250 |               | Credit Sales                               | 19,300 |               |
| Add : Cash Purchases                       | 950    | 18,200        | Add : Cash Sales                           | 8,270  | 27,570        |
| To Gross Profit c/d (33 1/3% of Rs.27,570) |        | 9,190         | By Closing Stock (Balancing figure)        |        | 14,520        |
|  |        | <b>42,090</b> |  |        | <b>42,090</b> |
| To Expenses including Rent                 |        | 2,190         | By Gross Profit b/d                        |        | 9,190         |
| To Net Profit                              |        | 7,000         |  |        |               |
|  |        | <b>9,190</b>  |  |        | <b>9,190</b>  |

(2 Marks)

**Balance Sheet of Premjit as on June 30, 1999**

|                                    | Rs.    | Rs.           |                       | Rs. | Rs.           |
|------------------------------------|--------|---------------|-----------------------|-----|---------------|
| Sundry Creditors                   |        | 6,400         | Fixtures and Fittings |     | 16,600        |
| Capital : Balance on April 1, 1999 | 27,850 |               | Stock                 |     | 14,520        |
| Add : Net Profit for three months  | 7,000  |               | Sundry Debtors        |     | 3,600         |
|                                    | 34,850 |               | Balance at Bank       |     | 5,680         |
| Less : Drawings                    | 800    | 34,050        | Cash in hand          |     | 50            |
| <b>Total</b>                       |        | <b>40,450</b> | <b>Total</b>          |     | <b>40,450</b> |

**(2 Marks)**

|   |              |               |
|---|--------------|---------------|
| (b) Computation of purchase price to be paid to Premjit : | Rs.          | Rs.           |
| Goodwill  |              | 10,000        |
| Fixtures and Fittings                                     | 16,600       |               |
| Add : 20%   | <u>3,320</u> | 19,920        |
| Debtors   | 3,600        |               |
| Less 5%   | <u>180</u>   | 3,420         |
| Stock   |              | <u>14,520</u> |
|   |              | 47,860        |
| Less : Liabilities  |              | <u>400</u>    |
| Purchase Price  |              | <u>41,460</u> |
| To be satisfied as under :                                |              |               |
| By the issue of 3,316 shares of Rs.10 each at RS.12.50    |              | 41,450        |
| In cash (remaining amount)                                |              | <u>10</u>     |
| Total   |              | <u>41,460</u> |

**(2 Marks)**

**Answer-4 (b) :**

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

| Particulars |                          | Face Value Rs.  | Interest Rs.  | Principal 2008  | Particulars |                | Face Value Rs.  | Interest Rs.  | Principal 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         | -               |             |                |                 |               |                 |
|             |                          | <b>1,55,000</b> | <b>13,388</b> | <b>1,53,333</b> |             |                | <b>1,55,000</b> | <b>13,388</b> | <b>1,53,333</b> |

**(6 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 |

**75,000**

**73,633**

**(2 Marks)**



**Answer-5 (a) :**

Average due date = Date of loan +  
Sum of the numbers of years/month/days from the  
date of lending to the date of repayment of each  
instalment

$$= \text{Jan. 1, 1977} + \frac{\text{Number of instalments}}{5} \times (1 + 2 + 3 + 4 + 5)$$

$$= \text{Jan. 1, 1977} + 3 \text{ years} = 1^{\text{st}} \text{ January, 1980.}$$

**(2 Marks)****Explanation**

Interest at a certain rate on the instalments paid from the date of payment to any fixed date will be the same as on Rs.10,000 (if lent on 1<sup>st</sup> January, 1980 to that fixed date. There will be no loss to either party. Supposing rate of interest is 5% p.a. and date of settlement is 31<sup>st</sup> December, 1982 then calculation of interest by product method from both parties point of view will be as follows :

Dass Bros. pays interest as follows :

| Amount Rs. | Paid on                  | Money used by Dass Bros. upto 31 <sup>st</sup> December, 1982 | Product Rs. |
|------------|--------------------------|---|-------------|
| 2,000      | 1 <sup>st</sup> Jan.1978 | 5 years   | 10,000      |
| 2,000      | 1 <sup>st</sup> Jan.1979 | 4 years   | 8,000       |
| 2,000      | 1 <sup>st</sup> Jan.1989 | 3 years   | 6,000       |
| 2,000      | 1 <sup>st</sup> Jan.1981 | 2 years   | 4,000       |
| 2,000      | 1 <sup>st</sup> Jan.1982 | 1 year  | 2,000       |
|            |                          |   | Rs.30,000   |

**(2 Marks)**

Interest at 5% p.a. on Rs.30,000 for one year.

$$= \frac{\text{Rs.30,000} \times 5}{100} = \text{Rs.1,500}$$

**(1 Mark)**

Dass Bros. will receive interest (if given on 1<sup>st</sup> January, 1980) on Rs.10,000 from average due date to 31<sup>st</sup> December, 1982, i.e. for 3 years at 5% p.a.

$$= \frac{5 \times 3 \times \text{Rs.10,000}}{100} = \text{Rs.1,500.}$$

**(1 Mark)**

From the above, it can be concluded that if borrower pays Rs.2,000 yearly from 1<sup>st</sup> January 1978 for 5 years and if lender gives Rs.10,000 on 1<sup>st</sup> January 1980 then both will charge the same interest from each other. There is no loss to any of the parties. But actually lender gives Rs.10,000 on 1<sup>st</sup> January 1977, therefore, he has given loan 3 years in advance and will charge interest on Rs.10,000 for 3 years.

$$\text{Interest} = \frac{\text{Rs.10,000} \times 5 \times 3}{100} = \text{Rs.1,500 (to be charged by Dass Bros.)}$$

**(2 Marks)****Answer-5 (b) :****Statement showing pre and post-incorporation profits**

| Particulars                | Basis       | Pre –<br>incorporation<br>period Rs. | Post<br>incorporation<br>period Rs. | Total<br>Rs. |
|----------------------------|-------------|--------------------------------------|-------------------------------------|--------------|
| Gross Profit               | Sales ratio | 16,000                               | 40,000                              | 56,000       |
| Less: General expenses     | Time ratio  | 6,320                                | 7,900                               | 14,220       |
| Directors' fee             | Actual      | -                                    | 5,000                               | 5,000        |
| Formation expenses         | Actual      | -                                    | 1,500                               | 1,500        |
| Rent (600 + 750)           | W.N. 2      | 400                                  | 950                                 | 1,350        |
| Manager's salary           | Actual      | 2,000                                | -                                   | 2,000        |
| Net Profit transferred to: |             |                                      |                                     |              |
| Capital Reserve            |             | 7,280                                | -                                   | -            |

(5 Marks)

**Working Notes:**

**1. Calculation of sales ratio**

Let the average monthly sales of first four months = 100  
and next five months = 200

Total sales of first four months = 100 x 4 = 400 and

Total sales of next five months = 200 x 5 = 1,000

The ratio of sales = 400 : 1,000 = 2 : 5

**2. Rent**

Till 31st December, 2013, rent was Rs. 1,200 p.a. i.e. Rs. 100 p.m.

So, Pre-incorporation rent = Rs. 100 x 4 months = Rs. 400

Post-incorporation rent = (Rs. 100 x 2 months) + (Rs. 250 x 3 months) = Rs. 950

**3. Time ratio**

Pre-incorporation period = 1<sup>st</sup> July, 2013 to 31<sup>st</sup> Oct. 2013 = 4 months

Post-incorporation = 1<sup>st</sup> November 2013 to 31<sup>st</sup> March 2014 = 5 months

= 4 months : 5 months

Thus, time ratio is 4:5

(1 x 3 = 3 Marks)

**Answer-6 (a) :**

(a)

**M/s Neptune & Co.  
Profit and Loss Adjustment Account  
for the year ended 31<sup>st</sup> March, 2011**

|   | Rs.             | Rs.  |
|---|-----------------|--|
| To Land & Building (Loss on sale)                 | 10,000          | By Partner's Capital Accounts :                          |
| To Machinery (Loss on scrapping)                  | 4,300           | Mr. A 95,400   |
| To Provision for Doubtful Debts<br>(Working note) | 5,820           | Mr. B <u>95,400</u> 1,90,800                             |
| To Stock Adjustment (Fall in the<br>Market value) | 11,400          | By Prepaid expenses (License<br>fee - 2000 x 6/12) 1,000 |
| To Cash (Misappropriated)                         | 700             | By Stock Adjustment (items 6,600                         |
| To Interest on Capital omitted)                   |                 |  |
| Mr. A 32,580                                      |                 |  |
| Mr. B <u>11,160</u> 43,740                        |                 |  |
| To Profit transferred to Capital<br>Accounts:     |                 |  |
| Mr. A 61,220                                      |                 |  |
| Mr. B <u>61,220</u> 1,22,440                      |                 |  |
|   | <b>1,98,400</b> | <b>1,98,400</b>  |

(3 Marks)

(b)

**Partners' Capital Accounts  
As on 31st March, 2011**

|  | Mr. A<br>Rs. | Mr. B<br>Rs. |                                     | Mr. A<br>Rs. | Mr. B<br>Rs. |
|--|--------------|--------------|-------------------------------------|--------------|--------------|
| 31.3.2011                              |              |              | 31.3.2010                           |              |              |
| To Drawings                            | 40,000       | 76,000       | By Balance b/d                      | 4,02,000     | 2,00,000     |
| To Profit & Loss<br>Adjustment Account | 95,400       | 95,400       | 31.3.2011                           |              |              |
| To Balance c/d                         | 4,55,800     | 1,96,380     | By Profit & Loss A/c                | 95,400       | 95,400       |
|  |              |              | By Profit & Loss<br>Adjustment A/c: |              |              |
|  |              |              | Interest on capital                 | 32,580       | 11,160       |

Profit for the year                                      61,220      61,220

5,91,200      3,67,780                                      5,91,200      3,67,780

(3 Marks)

**Working Notes:**

(1) Provision for doubtful debts charged to profit and loss adjustment account

**Provision for Doubtful Debts Accounts**

|                           | Rs.           |   | Rs.           |
|---------------------------|---------------|---|---------------|
| To Bad Debts              | 10,420        | By Balance b/d                                | 10,000        |
| To Balance c/d (required) | 5,400         | By Profit & Loss Adjustment A/c<br>(bal.fig.) | 5,820         |
|                           | <b>15,820</b> |   | <b>15,820</b> |

(1 Mark)

(2) Interest on Capitals

Mr. A Rs. 3,62,000 × 9% p.a. = Rs. 32,580

Mr. B Rs. 1,24,000 × 9% p.a. = Rs. 11,160

**Note :** Misappropriation by cashier may be debited to cashier also. In that case, Rs. 700 will not be debited to Profit and Loss Adjustment Account and profit transferred to partners will be Rs. 1,23,140. No adjustment should be made for cheques made out but not dispatched to suppliers.

(1 Mark)

**Answer-6 (b) :**

Calculation of total Interest and Interest included in each installment

Hire Purchase Price (HPP) = Down Payment + instalments

= 30,000 + 50,000 + 50,000 + 30,000 + 20,000 = 1,80,000

Total Interest = 1,80,000 – 1,50,000 = 30,000

**Computation of IRR (considering two guessed rates of 6% and 12%)**

| Year | Cash Flow | DF @6% | PV       | DF @12% | PV       |
|------|-----------|--------|----------|---------|----------|
| 0    | 30,000    | 1.00   | 30,000   | 1.00    | 30,000   |
| 1    | 50,000    | 0.94   | 47,000   | 0.89    | 44,500   |
| 2    | 50,000    | 0.89   | 44,500   | 0.80    | 40,000   |
| 3    | 30,000    | 0.84   | 25,200   | 0.71    | 21,300   |
| 4    | 20,000    | 0.79   | 15,800   | 0.64    | 12,800   |
|      |           | NPV    | 1,62,500 | NPV     | 1,48,600 |

(3 Marks)

Interest rate implicit on lease is computed below by interpolation:

$$\text{Interest rate implicit on lease} = 6\% + \frac{1,62,500 - 1,50,000}{1,62,500 - 1,48,600} \times (12 - 6) = 11.39\%$$

$$= 6\% + \frac{12,500}{13,900} \times 6 = 11.39\%$$

(2 Marks)

**Thus repayment schedule and interest would be as under:**

| Installment no. | Principal at beginning | Interest included in each instalment | Gross amount | Instalment | Principle at end |
|-----------------|------------------------|--------------------------------------|--------------|------------|------------------|
| Cash down       | 1,50,000               |                                      | 1,50,000     | 30,000     | 1,20,000         |
| 1               | 1,20,000               | 13,668                               | 1,33,668     | 50,000     | 83,668           |
| 2               | 83,668                 | 9,530                                | 93,198       | 50,000     | 43,198           |

|   |         |       |        |        |        |
|---|---------|-------|--------|--------|--------|
| 3 | 43,198  | 4,920 | 48,118 | 30,000 | 18,118 |
| 4 | 18,118  | 2,064 | 20,182 | 20,000 | 182*   |
|   | 30,182* |       |        |        |        |

(3 Marks)

Answer-7 (a) :

**General Ledger Adjustment Account in Debtors Ledger**

| Date       | Particulars                              | Rs.              | Date       | Particulars                              | Rs.              |
|------------|--|------------------|------------|--|------------------|
| 01.04.2012 | To Balance b/d                           | 9,400            | 1.4.2012   | By Balance b/d                           | 3,58,200         |
| 01.04.2012 | To Debtors ledger<br>to adjustment A/c : |                  | 01.04.2012 | By Debtors ledger<br>to adjustment A/c : |                  |
| 30.4.2012  | Cash received                            | 17,25,700        | 30.4.2012  | Credit sales                             | 19,95,400        |
|            | Sales Returns                            | 33,100           |            | Cash paid for returns                    | 6,000            |
|            | Bills receivable received                | 95,000           |            | Bills receivable dishonoured             | 7,500            |
|            | Transfer to creditors ledger             | 16,000           | 30.04.2012 | By Balance c/d                           | 9,800            |
| 30.04.2012 | To Balance c/d<br>(bal.fig)              | 4,97,700         |            |  |                  |
|            |  | <b>23,76,900</b> |            |  | <b>23,76,900</b> |

(4 Marks)

Answer-7 (b) :

**Memorandum Trading Account for the period 1<sup>st</sup> April, 2011 to 31<sup>st</sup> August, 2011**

|                              | Normal<br>Items Rs. | Abnormal<br>Items Rs. | Total<br>Rs.    |                                | Normal<br>Items Rs. | Abnormal<br>Items Rs. | Total<br>Rs.    |
|------------------------------|---------------------|-----------------------|-----------------|--------------------------------|---------------------|-----------------------|-----------------|
| To Opening Stock             | 95,000              | 5,000                 | 1,00,000        | By Sales                       | 2,40,000            | 2,000                 | 2,42,000        |
| To Purchases<br>(Refer W.N.) | 1,56,500            | -                     | 1,56,500        | By Goods sent to<br>consignee  | 16,500              | -                     | 16,500          |
| To Wages                     | 47,000              | -                     | 47,000          | By Loss                        | -                   | 500                   | 500             |
| To Gross Profit @ 20%        | 48,000              | -                     | 48,000          | By Closing Stock<br>(Bal.Fig.) | 90,000              | 2,500                 | 92,500          |
|                              | <b>3,46,500</b>     | <b>5,000</b>          | <b>3,51,500</b> |                                | <b>3,46,500</b>     | <b>5,000</b>          | <b>3,51,500</b> |

(3 Marks)

**Statement of Claim for Loss of Stock**

|                                      |                 |
|--------------------------------------|-----------------|
|                                      | <b>Rs.</b>      |
| Book value of stock as on 31.08.2011 | 92,500          |
| Less: Stock salvaged                 | <u>(20,000)</u> |
| Loss of stock                        | <u>72,500</u>   |

Amount of claim to be lodged with insurance company

$$= \text{Loss of stock} \times \frac{\text{Policy Value}}{\text{Value of stock on the date of fire}}$$

$$= \text{Rs.}72,500 \times \frac{60,000}{92,500} = \text{Rs.}47,027$$

(2 Marks)

**Working Note:**

**Calculation of Adjusted Purchases**

|                    |                 |
|--------------------|-----------------|
|                    | <b>Rs.</b>      |
| Purchases          | 1,70,000        |
| Less: Drawings     | (12,000)        |
| Free samples       | <u>(1,500)</u>  |
| Adjusted purchases | <u>1,56,500</u> |

Answer-7 (c) :

## Journal Entries in the books of Brite Ltd.

| 2015    |  |     | Dr.<br>Rs. in lakhs | Cr.<br>Rs. in lakhs |
|---------|--|-----|---------------------|---------------------|
| April 2 | Equity Share Final Call A/c  | Dr. | 2,000               |                     |
|         | To Equity Share Capital A/c  |     |                     | 2,000               |
|         | (Final call of Rs. 2 per share on 10 crore equity shares made due)   |     |                     |                     |
|         | Bank A/c   | Dr. | 2,000               |                     |
|         | To Equity Share Final Call A/c   |     |                     | 2,000               |
|         | (Final call money on 10 crore equity shares received)  |     |                     |                     |
| June 1  | Capital Reserve A/c  | Dr. | 485                 |                     |
|         | Capital Redemption Reserve A/c.  | Dr. | 1,000               |                     |
|         | Securities Premium A/c   | Dr. | 2,000               |                     |
|         | General Reserve A/c  | Dr. | 515                 |                     |
|         | To Bonus to Shareholders A/c   |     |                     | 4,000               |
|         | (Bonus issue of two shares for every five shares held, by utilising various reserves as per Board's resolution dated.....) |     |                     |                     |
|         | Bonus to Shareholders A/c  | Dr. | 4,000               |                     |
|         | To Equity Share Capital A/c  |     |                     | 4,000               |
|         | (Capitalisation of profit)   |     |                     |                     |

(3 Marks)

## Notes to Accounts

|    |   |                | Rs. in lakhs      |
|----|---|----------------|-------------------|
| 1. | Share Capital   |                |                   |
|    | Authorised share capital  |                |                   |
|    | 20 crore shares of Rs. 10 each  |                | <u>20,000</u>     |
|    | Issued, subscribed and fully paid up share capital                                  |                |                   |
|    | 14 crore Equity shares of Rs. 10 each, fully paid up                                |                | 14,000            |
|    | (Out of the above, 4 crore equity shares @ Rs. 10 each were issued by way of bonus) |                |                   |
|    | 2 crore, 11% Cumulative Preference share capital of Rs. 10each, fully paid up       |                | <u>2,000</u>      |
|    |   |                | <u>16,000</u>     |
| 2. | Reserves and Surplus  |                |                   |
|    | Capital Reserves  | 485            |                   |
|    | Less: Utilized for bonus issue  | <u>(485)</u>   | -                 |
|    | Capital Redemption reserve  | 1,000          |                   |
|    | Less: Utilized for bonus issue  | <u>(1,000)</u> | -                 |
|    | Securities Premium  | 2,000          |                   |
|    | Less: Utilized for bonus issue  | <u>(2,000)</u> | -                 |
|    | General Reserve   | 1,040          |                   |
|    | Less: Utilized for bonus issue  | <u>(515)</u>   | 525               |
|    | Surplus (Profit and Loss Account)   |                | <u>273</u>        |
|    | <b>Total</b>  |                | <b><u>798</u></b> |

(3 Marks)