Test Series: March, 2019

MOCK TEST PAPER

INTERMEDIATE (IPC): GROUP – I

PAPER – 1: ACCOUNTING

SUGGESTED ANSWERS/HINTS

1. (a) As per AS 7 on 'Construction Contracts', when a contract covers a number of assets, the construction of each asset should be treated as a separate construction contract when:

(a) separate proposals have been submitted for each asset;

(b) each asset has been subject to separate negotiation and the contractor and customer have been able to accept or reject that part of the contract relating to each asset; and

(c) the costs and revenues of each asset can be identified.

In the given case, each outlet is submitted as a separate proposal to different Zonal Office, which can be separately negotiated, and costs and revenues thereof can be separately identified. Hence, each asset will be treated as a "single contract" even if there is one document of contract.

Therefore, four separate contract accounts have to be recorded and maintained in the books of X Ltd. For each contract, principles of revenue and cost recognition have to be applied separately and net income will be determined for each asset as per AS -7.

(b) Net Realisable Value of Inventory as on 31st March, 2017

= Rs. 107.75 x 20 units = Rs. 2,155

Value of inventory as per Weighted Average basis

Total units purchased and total cost:

01.03.2017	Rs. 108 x 20 units = Rs. 2160
08.3.2017	Rs. 107 x 15 units = Rs. 1605
17.03.2017	Rs. 109 x 30 units = Rs. 3270
25.03.2017	Rs. 107 x 15 units = Rs. 1605
Total	80 units = Rs. 8640

Weighted Average Cost = Rs. 8640/80 units = Rs.108

Total cost = Rs. 108 x 20 units = Rs. 2,160

Value of inventory to be considered while preparing Balance Sheet as on 31st March, 2017 is, Cost or Net Realisable value whichever is lower i.e. Rs. 2,155.

(c) Computation of effective capital:

	Rs.
Paid-up share capital-	
20,000, 14% Preference shares	20,00,000
1,20,000 Equity shares	96,00,000
Capital reserves (excluding revaluation reserve)	45,000
Securities premium	50,000

15% Debentures		65,00,000
Public Deposits		3,70,000
	(A)	1,85,65,000
Investments		75,00,000
Profit and Loss account (Dr. balance)		15,00,000
	(B)	90,00,000
Effective capital	(A–B)	95,65,000

(d) Calculation of number of days from the base date

Due date	*Amount (Rs.)*	*No. of days from 5.3.17*	*Product*
5.3.2017	5,000	0	0
7.4.2017	7,500	33	2,47,500
17.7.2017	6,000	134	8,04,000
14.9.2017	8,000	193	15,44,000
	26,500		25,95,500

$$\text{Average due date} = \text{Base date} + \frac{\text{Sum of Product}}{\text{Sum of Amount}}$$

$$= 5.3.2017 + \frac{25,95,500}{26,500} = 98 \text{ days (round off)}$$

The date of the cheque will be 98 days from the base date i.e.11.6.2017. So on 11th June, 2017, all bills will be settled by a single cheque payment.

2. Journal Entries in the books of Weak Ltd.

		Rs.	*Rs.*
(i)	Equity share capital (Rs.100) A/c Dr.	1,00,00,000	
	To Equity Share Capital (Rs.40) A/c		40,00,000
	To Capital Reduction A/c		60,00,000
	(Being conversion of equity share capital of Rs.100 each into Rs.40 each as per reconstruction scheme)		
(ii)	12% Cumulative Preference Share capital (Rs.100) A/c Dr.	50,00,000	
	To 12% Cumulative Preference Share Capital (Rs.60) A/c		30,00,000
	To Capital Reduction A/c		20,00,000
	(Being conversion of 12% cumulative preference share capital of Rs.100 each into Rs.60 each as per reconstruction scheme)		
(iii)	10% Debentures A/c Dr.	40,00,000	
	To 12% Debentures A/c		28,00,000
	To Capital Reduction A/c		12,00,000
	(Being 12% debentures issued to 10% debenture-holders for 70% of their claims. The balance transferred to capital reduction account as per reconstruction scheme)		

(iv)	Trade payables A/c Dr.	20,00,000	
	To Equity Share Capital A/c		12,00,000
	To Capital Reduction A/c		8,00,000
	(Being a creditor of Rs.20,00,000 agreed to surrender his claim by 40% and was allotted 30,000 equity shares of Rs.40 each in full settlement of his dues as per reconstruction scheme)		
(v)	Provision for Taxation A/c Dr.	1,00,000	
	Capital Reduction A/c Dr.	50,000	
	To Current assets(bank A/c) A/c		1,50,000
	(Being liability for taxation settled)		
(vi)	Capital Reduction A/c Dr.	99,00,000	
	To P & L A/c		6,00,000
	To Fixed Assets A/c		37,50,000
	To Current Assets A/c		55,00,000
	To Investments A/c		50,000
	(Being amount of Capital Reduction utilized in writing off P & L A/c (Dr.) Balance, Fixed Assets, Current Assets, Investments through capital reduction account)		
(vii)	Capital Reduction A/c Dr	50,000	
	To Capital Reserve A/c		50,000
	(Being balance in capital reduction account transferred to capital reserve account)		

Balance Sheet of Weak Ltd. (and reduced) as on 31.3.2017

		Particulars	Notes	Rs.
		Equity and Liabilities		
1		**Shareholders' funds**		
	a	Share capital	1	82,00,000
	b	Reserves and Surplus	2	50,000
2		**Non-current liabilities**		
	a	Long-term borrowings	3	28,00,000
3		**Current liabilities**		
	a	Trade Payables		30,00,000
		Total		**1,40,50,000**
		Assets		
1		**Non-current assets**		
		Property, Plant & Equipment		
		Tangible assets	4	87,50,000
	b	Investments	5	9,50,000
2		**Current assets**	6	43,50,000
		Total		**1,40,50,000**

Notes to accounts

		Rs.
1. **Share Capital**		
Equity share capital		
Issued, subscribed and paid up		
1,30,000 equity shares of Rs.40 each		52,00,000
Preference share capital		
Issued, subscribed and paid up		
50,000 12% Cumulative Preference shares of Rs.60 each		30,00,000
Total		**82,00,000**
2. **Reserves and Surplus**		
Capital Reserve		50,000
3. **Long-term borrowings**		
Secured		
12% Debentures		28,00,000
4. **Tangible assets**		
Fixed Assets	1,25,00,000	
Adjustment under scheme of reconstruction	(37,50,000)	87,50,000
5. **Investments**	10,00,000	
Adjustment under scheme of reconstruction	(50,000)	9,50,000
6. **Current assets**	45,00,000	
Adjustment under scheme of reconstruction	(1,50,000)	43,50,000

Working Note:

Capital Reduction Account

	Rs.		Rs.
To Current Asset	50,000	By Equity share capital	60,00,000
To P & L A/c	6,00,000	By 12% Cumulative preference share capital	20,00,000
To Fixed assets	37,50,000	By 10% Debentures	12,00,000
To Current assets	55,00,000	By Trade payables	8,00,000
To Investment	50,000		
To Capital Reserve (bal. fig.)	50,000		
	1,00,00,000		1,00,00,000

3. **Revaluation Account**

Particulars	*Rs.*	*Particulars*	*Rs.*
To Provision for doubtful debts	600	By Unexpired insurance	2,000
To Machinery	2,400	By Land and building	10,000
To Outstanding repairs	3,000		
To Profit t/f to:			
A's capital A/c	3,000		
B's capital A/c	2,000		
C's capital A/c	1,000		
	12,000		12,000

Capital Accounts of Partners

Particulars	A Rs.	B Rs.	C Rs.	*Particulars*	A Rs.	B Rs.	C Rs.
To B's capital A/c (for goodwill) (W. N 2)	9,000	-	3,000	By Balance b/d	72,000	48,000	24,000
				By Revaluation A/c	3,000	2,000	1,000
To Bank A/c	-	6,000	-	By A's capital A/c (for goodwill) (W.N. 2)	-	9,000	-
To B's loan A/c	-	68,000	-				
To Balance c/d	90,000	-	30,000				
				By C's capital A/c (for goodwill) (W.N 2)	-	3,000	-
				By Contingency Reserve	15,000	10,000	5,000
				By Work Compensation Reserve	3,000	2,000	1,000
				By Bank A/c (Bal. fig)	6,000	-	2,000
	99,000	74,000	33,000		99,000	74,000	33,000

Balance Sheet of A and C at 31st December 2018

Liabilities	*Rs.*	*Assets*	*Rs.*	*Rs.*
Creditors	20,000	Cash at bank (W.N 1)		18,000
Employees' Provident Fund	1,600	Debtors	20,000	
Liability for repairs	3,000	*Less*: Provision	(1,000)	19,000
B's loan A/c	68,000	Stock		18,000
A's capital A/c	90,000	Machinery (48,000- 2,400)		45,600
C's capital A/c	30,000			
		Land & building (1,00,000+10,000)		1,10,000

	______	Unexpired insurance		2,000
	2,12,600			2,12,600

Working Notes:

1. **Bank Account**

Particulars	Rs.	Particulars	Rs.
To Balance b/d	16,000	By B's capital A/c	6,000
To A's capital A/c	6,000	By Balance c/d	18,000
To C's capital A/c	2,000		
	24,000		24,000

2. **Adjustment of goodwill**

	New ratio	*Old ratio*	*Gaining ratio*
A	3/4	3/6	$\frac{18-12}{24}=\frac{6}{24}$
C	1/4	1/6	$\frac{6-4}{24}=\frac{2}{24}$

Therefore, gaining ratio of A & C = 3:1

B's share of goodwill of Rs.12,000 will be shared by A & C in 3:1 = Rs.9,000: Rs.3,000

4. (a) **Statement showing calculation of profits for pre and post incorporation periods for the year ended 31.3.2017**

Particulars	*Pre-incorporation period* *Rs.*	*Post- incorporation period* *Rs.*
Gross profit (1:3)	80,000	2,40,000
Less: Salaries (1:2)	16,000	32,000
Stationery (1:2)	1,600	3,200
Advertisement (1:3)	4,000	12,000
Travelling expenses (W.N.3)	4,000	8,000
Sales promotion expenses (W.N.3)	1,200	3,600
Misc. trade expenses (1:2)	12,600	25,200
Rent (office building) (W.N.2)	8,000	18,400
Electricity charges (1:2)	1,400	2,800
Director's fee	-	11,200
Bad debts (1:3)	800	2,400
Selling agents commission (1:3)	4,000	12,000
Audit fee (1:3)	1,500	4,500
Debenture interest	-	3,000
Interest paid to vendor (2:1) (W.N.4)	2,800	1,400

Selling expenses (1:3)	6,300	18,900
Depreciation on fixed assets (W.N.5)	3,000	6,600
Capital reserve (Bal. Fig.)	12,800	-
Net profit (Bal. Fig.)	-	74,800

Working Notes:

1. **Time Ratio**

Pre incorporation period = 1st April, 2016 to 31st July, 2016

i.e. 4 months

Post incorporation period is 8 months

Time ratio is 1: 2.

2. **Sales ratio**

Let the monthly sales for first 6 months (i.e. from 1.4.2016 to 30.09.16) be = x

Then, sales for 6 months = 6x

Monthly sales for next 6 months (i.e. from 1.10.16 to 31.3.2017) = $x + \frac{2}{3}x = \frac{5}{3}x$

Then, sales for next 6 months = $\frac{5}{3}x \text{ X } 6 = 10x$

Total sales for the year = 6x + 10x = 16x

Monthly sales in the pre incorporation period = Rs.19,20,000/16 = Rs.1,20,000

Total sales for pre-incorporation period = Rs.1,20,000 x 4 = Rs.4,80,000

Total sales for post incorporation period = Rs.19,20,000 – Rs.4,80,000 = Rs.14,40,000

Sales Ratio = 4,80,000 : 14,40,000= 1 : 3

3. **Rent**

		Rs.
Rent for pre-incorporation period (Rs.2,000 x 4)		8,000 (pre)
Rent for post incorporation period		
August,2016& September,2016 (Rs.2,000 x 2)	4,000	
October,2016 to March,2017 (Rs.2,400 x 6)	14,400	18,400 (post)

4. **Travelling expenses and sales promotion expenses**

	Pre *Rs.*	*Post* *Rs.*
Traveling expenses Rs.12,000 (i.e. Rs.16,800-Rs.4,800) distributed in 1:2 ratio	4,000	8,000
Sales promotion expenses Rs.4,800 distributed in 1:3 ratio	1,200	3,600

5. Interest paid to vendor till 30th September, 2016

	Pre Rs.	Post Rs.
Interest for pre-incorporation period $\left(\frac{₹\,4,200}{6}\times 4\right)$	2,800	
Interest for post incorporation period i.e. for August, 2016& September, 2016= $\left(\frac{₹\,4,200}{6}\times 2\right)$		1,400

6. Depreciation

		Pre Rs.	Post Rs.
Total depreciation	9,600		
Less: Depreciation exclusively for post incorporation period	600		600
	9,000		
Depreciation for pre-incorporation period $\left[9,000\times\frac{4}{12}\right]$		3,000	
Depreciation for post incorporation period $\left[9,000\times\frac{8}{12}\right]$		–	6,000
		3,000	6,600

(b) **In the books of M/s Kumar**

Investment Account

for the period from 1st December 2016 to 1st March, 2017

(Scrip: 12% Debentures of Royal Ltd.)

Date	Particulars	Nominal Value (Rs.)	Interest	Cost (Rs.)	Date	Particulars	Nominal Value (Rs.)	Interest	Cost (Rs.)
1.12.2016	To Bank A/c (W.N.1)	10,00,000	20,000	10,00,100	1.03.2017	By Bank A/c (W.N.2)	10,00,000	50,000	9,99,400
1.3.2017	To Profit & loss A/c	-	30,000		1.3.2017	By Profit & loss A/c			700
		10,00,000	50,000	10,00,100			10,00,000	50,000	10,00,100

Working Notes:

(i) Cost of 12% debentures purchased on 1.12.2016 Rs.

Cost Value (10,000 ×Rs.101)	=	10,10,000
Add: Brokerage (1% of Rs.10,10,000)	=	10,100
Less: Cum Interest (10,000 x 100 x12% x 2/12)	=	(20,000)
Total	=	10,00,100

(ii) Sale proceeds of 12% debentures sold on 1st March, 2017 Rs.

Sales Price (10,000 ×Rs.106) = 10,60,000

Less: Brokerage (1% of Rs.10,60,000)	=	(10,600)
Less: Cum Interest (10,000 x 100 x12% x 5/12)	=	(50,000)
Total	=	9,99,400

5. **Tiger Club**

Receipts and Payments Account
for the year ended 31st March, 2017

Receipts	*Rs.*	*Payments*	*Rs.*
To Opening balance:		By Premises	60,000
Cash on hand	900	By Rent	4,800
Bank balance	48,840	By Rates and taxes	7,560
To Subscriptions	1,24,260	By Printing and stationary	2,820
To Fair receipts	14,400	By Sundry expenses	10,700
To Variety show receipts (net)	25,620	By Wages	5,040
To Interest	1,380	By Fair expenses	14,340
To Bar collections	44,700	By Honorarium to secretary	22,000
To Sale proceeds of old car	18,000	By Bar purchases (payments)	34,620
		By Repairs	1,920
		By New Car	93,600
		By Closing balance:	
		Cash in hand	Nil
		Bank balance	20,700
	2,78,100		2,78,100

Income and Expenditure Account
for the year ended 31st March, 2017

Expenditure	*Rs.*	*Rs.*	*Income*	*Rs.*	*Rs.*
To Rent		4,800	By Subscriptions	1,24,260	
To Rates and taxes		7,560	*Add:* Due as on 31.3.17	5,880	
To Printing and stationary		2,820		1,30,140	
To Wages		5,040	*Less*: Due as on 31.3.16	(7,200)	1,22,940
To Honorarium to secretary		24,000	By Surplus from fair:		
To Sundry expenses		10,700	Fair receipts	14,400	
To Repairs		1,920	*Less:* Fair expenses	14,340	60
To Depreciation on			By Surplus from variety show		25,620
Premises @ 5% *	6,060				
Car @20% of 93,600	18,720	24,780	By Interest		1,380
			By Profit from bar (W.N.2)		12,000

* [(1,74,000 -1,12,800) x 0.05 + 60,000x0.05]

To Excess of income over expenditure		86,980	By Profit from sale of car (W.N. 3)		6,600
		1,68,600			1,68,600

Working Notes:

1. **Calculation of bar purchases**

Bar Creditors Account

Dr.			*Cr.*
	Rs.		*Rs.*
To Bank A/c	34,620	By Balance b/d	3,540
To Balance c/d	2,580	By Bar purchases	33,660
	37,200		37,200

2. **Profit from bar**

	Rs.	*Rs.*
Bar collections		44,700
Less: Bar inventory consumed-		
Opening inventory	4,260	
Add: Purchases	33,660	
	37,920	
Less: Closing inventory	5,220	32,700
		12,000

3. **Profit on sale of car**

	Rs.
Sale proceeds of old car	18,000
Less: W.D.V. of old car (Rs. 73,140-Rs. 61,740)	11,400
	6,600

6. (a) Sales Ledger Adjustment Account

2016		Rs.	2016		Rs.
Jan. 1	To Balance b/d	6,41,600	June 30	By General ledger adjustment A/c-	
June 30	To General ledger adjustment A/c- Sales	11,26,000		Cash	3,68,400
				Returns inward	33,600
				Bills receivable	3,20,000
				Bad debts	24,000
				Discounts allowed	21,600
			June 30	By Balance c/d	10,00,000
		17,67,600			17,67,600

Purchases Ledger Adjustment Account

2016		Rs.	2016		Rs.
June 30	To General ledger adjustment A/c:	3,60,000	Jan. 1	By Balance b/d	3,72,800
			June 30	By General ledger adjustment A/c:	

		Cash				
		Returns outward	15,200		Purchases	6,44,000
		Bills payable	2,40,000			
		Discounts received	8,400			
June 30	To	Balance c/d	3,93,200			
			10,16,800			10,16,800

(b) Ascertainment of rate of gross profit for the year 2015-16

Trading A/c for the year ended 31-3-2016

	Rs.		Rs.
To Opening stock	4,81,100	By Sales	26,00,000
To Purchases	22,62,500	By Closing stock	6,63,600
To Gross profit	5,20,000		
	32,63,600		32,63,600

Rate of gross profit = $\frac{GP}{Sales} \times 100$

$= \frac{5,20,000}{26,00,000} \times 100 = 20\%$

Memorandum Trading A/c for the period from 1-4-2016 to 22-01-2017

	Rs.	Rs.		Rs.	Rs.
To Opening stock		6,63,600	By Sales	24,58,500	
To Purchases	17,41,350		*Add*: Unrecorded cash sales (W.N.)	20,000	24,78,500
Less: Goods used for advertisement	(50,000)	16,91,350	By Closing stock		3,72,150
To Gross profit (20% of Rs. 24,78,500)		4,95,700			
		28,50,650			28,50,650

Estimated stock in hand on the date of fire was Rs. 3,72,150.

Working Note:

Cash sales defalcated by the Accountant:

Defalcation period = 1.4.2016 to 18.8.2016= 140 days

Since, 140 days / 7 weeks = 20 weeks

Therefore, amount of defalcation = 20 weeks × Rs. 1,000 = Rs. 20,000.

7. **(a)** Constructing or acquiring a new asset may result in incremental costs that would have been avoided if the asset had not been constructed or acquired. These costs are not be included in the cost of the asset if they are not directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.

The costs to be incurred by the company are in the nature of costs of reducing or reorganizing the operations of the accompany. These costs do not meet that requirement of AS 10 "Property, Plant and Equipment" and cannot, therefore, be capitalized.

(b) As per AS 9 'Revenue Recognition', the additional revenue on account of increase in sales price with retrospective effect, as decided by Board of Directors of X Ltd., of Rs.5 lakhs to be recognized as income for financial year 2016-17, only if the company is able to assess the ultimate collection with reasonable certainty. If at the time of raising of any claim it is unreasonable to expect ultimate collection, revenue recognition should be postponed.

(c) Following are the advantages of outsourcing the accounting functions:

(i) **Saving of Time:** The organisation that outsources its accounting function is able to save time to concentrate on the core area of business activity.

(ii) **Expertise of the third party**: The organisation is able to utilise the expertise of the third party in undertaking the accounting work.

(iii) **Maintenance of data:** Storage and maintenance of the data is in the hand of professional people.

(iv) **Economical:** The organisation is not bothered about people leaving the organisation in key accounting positions. The proposition often proves to be economically more sensible.

(d) Accounting Standards deal with the issues of

(i) Recognition of events and transactions in the financial statements,

(ii) Measurement of these transactions and events,

(iii) Presentation of these transactions and events in the financial statements in a manner that is meaningful and understandable to the reader, and

(iv) Disclosure requirements which should be there to enable the public at large and the stakeholders and the potential investors in particular, to get an insight into what these financial statements are trying to reflect and thereby facilitating them to take prudent and informed business decisions.

(e) Cash Flow Statement from Investing Activities of

M/s Creative Furnishings Limited for the year ended 31-03-2018

Cash generated from investing activities	*Rs.*	*Rs.*
Interest on loan received	82,500	
Pre-acquisition dividend received on investment made	62,400	
Unsecured loans given to subsidiaries	(4,85,000)	
Interest received on investments (gross value)	76,200	
TDS deducted on interest	(8,200)	
Sale of plant	74,400	
Cash used in investing activities (before extra ordinary item)		(1,97,700)
Extraordinary claim received for loss of plant		49,600
Net cash used in investing activities (after extra ordinary item)		(1,48,100)

Note:

1. Debenture interest paid and Term Loan repaid are financing activities and therefore not considered for preparing cash flow from investing activities.

2. Plant acquired by issue of 8% debentures does not amount to cash outflow, hence also not considered in the above cash flow statement.