

Test Series: March, 2012

MOCK TEST PAPER - 2

IPCC: GROUP – I

PAPER – 1: ACCOUNTING

Question No. 1 is compulsory.

*Answer any **five** questions from the remaining **six** questions.*

Working notes should form part of the answer.

Time Allowed – 3 Hours

Maximum Marks – 100

1. (a) 'X' lent ₹ 25,000 to 'Y' on 1st January, 2011. The amount is repayable in 5 half-yearly installments commencing from 1st January, 2012. Calculate the average due date and interest @ 10% per annum.
- (b) Smart Ltd. sold farm equipments through its dealers. One of the conditions at the time of sale is payment of consideration in 14 days and in the event of delay interest is chargeable @ 15% per annum. The Company has not realized interest from the dealers in the past. However, for the year ended 31.3.2012, it wants to recognise interest due on the balances due from dealers. The amount is ascertained at ₹ 9 lakhs. Decide whether the income by way of interest from dealers is eligible for recognition as per AS 9.
- (c) Soft and Hardwares Ltd. are finalizing their annual accounts as on 31st March. A few elements in their Profit and loss Account are furnished below:

		₹ in lakhs
(a)	Cost of goods sold (includes loss on sale of assets)	2,740
(b)	Profit on sale of property	200
(c)	PBT	300

Some of the assets, revalued in earlier years, have been sold by the company now, for ₹ 100 lacs (WDV ₹ 250 lacs). Revaluation reserve corresponding to these assets stood at ₹ 200 lacs, now brought to Profit and Loss Account.

Comment on this treatment, and advise action, if any, with reference to relevant accounting standard.

- (d) Change Ltd. wants to re-classify its investments in accordance with AS 13. Decide on the amount of transfer, based on the following information:
 1. A portion of Current Investments purchased for ₹ 20 lakhs, to be re-classified as Long Term Investments, as the Company has decided to retain them. The

market value as on the date of Balance Sheet was ₹ 25 lakhs.

2. Another portion of current investments purchased for ₹ 15 lakhs, to be re-classified as long term investments. The market value of these investments as on the date of balance sheet was ₹ 6.5 lakhs.
 3. Certain long term investments no longer considered for holding purposes, to be reclassified as current investments. The original cost of these were ₹ 18 lakhs but had been written down to ₹ 12 lakhs to recognise permanent decline, as per AS 13. (5 Marks each)
2. P, Q, R are three doctors who are running a Polyclinic. Their capital on 31st March, 2011 was ₹ 1,00,000 each. They agreed to admit X, Y and Z as partners w.e.f. 1st April 2011. The terms for sharing profits & losses were as follows:
- (a) 70% of the visiting fee is to go to the specialist concerned.
 - (b) 50% of the chamber fee will be payable to the individual specialist.
 - (c) 40% of operation fee and fee for pathological reports, X-rays and ECG will accrue in favour of the doctor concerned.
 - (d) Balance of profit or loss is shared equally.
 - (e) All the partners are entitled for 6% interest on capital employed.
- They further agreed that:
- (i) X, Y and Z brought in ₹ 20,000 each as goodwill. Goodwill is shared by the existing partners equally.
 - (ii) X, Y and Z brought in ₹ 50,000 each as capital. Each of the original partners also contributed ₹ 50,000 by way of capital.

The receipts for the year after admission of new partners were:

Name of doctors	Particulars	Visiting Fee (₹)	Chamber Fee (₹)	Fee for reports, operation etc. (₹)
P	General Physician	1,50,000	2,00,000	-
Q	Gynecologist	25,000	1,75,000	1,00,000
R	Cardiologist	-	1,00,000	75,000
X	Child Specialist	1,00,000	1,50,000	-
Y	Pathologist	-	-	1,00,000
Z	Radiologist	-	40,000	2,00,000
	Total	<u>2,75,000</u>	<u>6,65,000</u>	<u>4,75,000</u>

Expenses for the year were as follows:

Particulars	₹
Medicines, injections and other consumables	1,00,000
Printing and stationery	5,000
Telephone expenses	5,000
Rent	42,000
Power and light	10,000
Nurses salary	20,000
Attendants wages	<u>20,000</u>
Total	<u>2,02,000</u>
Depreciation:	
X-Ray machines	15,000
ECG equipments	5,000
Furniture	5,000
Surgical equipments	<u>5,000</u>
Total Depreciation	<u>30,000</u>

You are requested to:

- Pass necessary journal entries on admission of partners.
 - Prepare the Profit and Loss Account of the polyclinic for the year ended 31st March, 2012.
 - Prepare capital accounts of all the partners at the end of the financial year 2011-12. Also show the distribution of profit among partners. (16 Marks)
3. OM Ltd. and NM Ltd. were amalgamated on and from 1st April, 2012 and formed a new company MNO Ltd. to take over the business of OM Ltd. and NM Ltd. The Balance Sheets of OM Ltd. and NM Ltd., as on 31st March, 2012 are as follows:

(₹ in crores)

Liabilities	OM Ltd.	NM Ltd.	Assets	OM Ltd.	NM Ltd.
Share Capital:			Land and Buildings	38	25
Equity share of ₹10 each	50	45	Plant and Machinery	24	17
10% Preference shares of ₹100 each	20	14	Investments	10	6

Revaluation Reserve	10	6	Stock	22	15
General Reserve	12	8	Sundry Debtors	25	20
Investment Allowance	5	4	Bills Receivable	5	4
Reserve			Cash at Bank	16	13
Profit & Loss Account	8	6			
15% Debentures of ₹100 each (Secured)	4	5			
Sundry Creditors	19	7			
Bills Payable	<u>12</u>	<u>5</u>			
	<u>140</u>	<u>100</u>		<u>140</u>	<u>100</u>

Additional Information:

- (1) MNO Ltd. will issue 6 equity shares for 10 equity shares of OM Ltd. and 2 equity shares for 5 equity shares of NM Ltd. The shares are issued @ ₹ 30 each having a face value of ₹ 10 per share.
 - (2) Preference shareholders of two companies are issued equivalent number of 15% preference shares of MNO Ltd. at a price of ₹ 120 per share (face value ₹ 100).
 - (3) 15% Debentureholders of OM Ltd. and NM Ltd. are discharged by MNO Ltd. issuing such number of its 18% Debentures of ₹ 100 each so as to maintain the same amount of interest.
 - (4) Investment allowance reserve is to be maintained for 4 more years. Prepare the Balance Sheet of MNO Ltd. after amalgamation. The amalgamation took place in the nature of purchase. (16 Marks)
4. The following information relates to the business of Mr. Incomplete, who requests you to prepare a Trading and Profit & Loss Account for the year ended 31st March, 2012 and a Balance Sheet as on that date:

(a)	Balance as on 31st March, 2011 (₹)	Balance as on 31st March, 2012 (₹)
Building	3,20,000	3,60,000
Furniture	60,000	68,000
Motorcar	80,000	80,000
Stocks	—	40,000
Bills payable	28,000	16,000

Cash and Bank balances	1,80,000	1,04,000
Sundry Debtors	1,60,000	–
Bills receivable	32,000	28,000
Sundry Creditors	1,20,000	–

- (b) Cash transactions during the year included the following besides certain other items:

	₹		₹
Sale of old papers and miscellaneous income	20,000	Cash purchases	48,000
Miscellaneous Trade expenses (including salaries etc.)	80,000	Payment to creditors	1,84,000
Collection from debtors	2,00,000	Cash sales	80,000

- (c) Other information:

- (i) Bills receivable drawn during the year amount to ₹ 20,000 and Bills payable accepted ₹ 16,000.
- (ii) Some items of old furniture, whose written down value on 31st March, 2011 was ₹ 20,000 was sold on 30th September, 2011 for ₹ 8,000. Depreciation is to be provided on Building and Furniture @ 10% p.a. and on Motorcar @ 20% p.a. Depreciation on sale of furniture to be provided for 6 months and for additions to Building for whole year.
- (iii) Of the Debtors, a sum of ₹ 8,000 should be written off as Bad Debt and a reserve for doubtful debts is to be provided @ 2%.
- (iv) Mr. Incomplete has been maintaining a steady gross profit rate of 30% on turnover.
- (v) Outstanding salary on 31st March, 2011 was ₹ 8,000 and on 31st March, 2012 was ₹ 10,000 on 31st March, 2011. Profit and Loss Account had a credit balance of ₹ 40,000.
- (vi) 20% of total sales and total purchases are to be treated as for cash.
- (vii) Additions in Furniture Account took place in the beginning of the year and there was no opening provision for doubtful debts.

(16 Marks)

5. (a) The Balance Sheet of Assure Ltd. as at 31.3.2012 is as follows:

Balance Sheet as at 31.3.2012

Liabilities	₹	Assets	₹
Authorised Share Capital: 1,50,000 Equity Shares of ₹ 10 each	<u>15,00,000</u>	Sundry Assets	17,00,000
Issued, Subscribed and Paid-up: 80,000 Equity Shares of ₹ 7.50 each called-up and paid-up	6,00,000		
Reserves and surplus:			
Capital Redemption Reserve	1,50,000		
Plant Revaluation Reserve	20,000		
Securities Premium Account	1,50,000		
Development Rebate Reserve	2,30,000		
Investment Allowance Reserve	2,50,000		
General Reserve	<u>3,00,000</u>		
	<u>17,00,000</u>		<u>17,00,000</u>

The company wanted to issue bonus shares to its share holders at the rate of one share for every two shares held. Necessary resolutions were passed; requisite legal requirements were complied with:

- (a) You are required to give effect to the proposal by passing journal entries in the books of Assure Ltd.
- (b) Show the amended Balance Sheet. (8 Marks)
- (b) From the following information prepare Sales Ledger Adjustment Account and Bought Ledger Adjustment Account in the General Ledger:

On 1.4.2011 balance in bought ledger (Dr.) ₹ 10,000, (Cr.) ₹ 96,000, balance in sales ledger (Dr.) ₹ 1,41,880 (Cr.) ₹ 2,240:

31.3.2012	₹	31.3.2012	₹
Purchases	5,40,000	Discount received	7,200
Purchases return	20,000	Bills receivable received	40,000
Total sales	7,68,000	Bills payable issued	22,400
Cash sales	40,000	Reserve for doubtful debts	9,160
Sales return	10,000	Cash paid to customers	1,840

Cash received from customers	6,24,000	Bills receivable dishonoured	6,000
Discount allowed	11,200	Bought ledger balance	10,400
Cash paid to suppliers	4,80,000	Sales ledger balance	1,83,200
Transfer from sales to bought ledger	20,800		

(8 Marks)

6. (a) A firm which was carrying on business from 1st January, 2011 gets itself incorporated as a company on 1st May, 2011. The first accounts are drawn up to 30th September, 2011. The gross profit for the period is ₹ 56,000. The general expenses are ₹ 14,220, directors' fee ₹ 12,000 p.a.; formation expenses ₹ 1,500. Rent up to 30th June is ₹ 1,200 p.a., after which it is increased to ₹ 3,000 per annum. Salary of the manager, who upon incorporation of the company was made a director, is ₹ 6,000 p.a. His remuneration thereafter is included in the above figure of fee to directors.

Give Profit and Loss Account showing pre-and post-incorporation profits. The net sales are ₹ 8,20,000, the monthly average of which, for the first four months of 2011 is half of that of the remaining period, the company earned a uniform profit. Interest and tax may be ignored.

(8 Marks)

- (b) Mr. Aggregate owed ₹ 4,000 on 1st January, 2012 to Mr. Full. The following transactions took place between them. It is agreed between the parties that interest @ 10% p.a. is to be calculated on all transactions.

	₹
15 January, 2012 Mr. Full sold goods to Mr. Aggregate	2,230
29 January, 2012 Mr. Full bought goods from Mr. Aggregate	1,200
10 February, 2012 Mr. Aggregate paid cash to Mr. Full	1,000
13 March, 2012 Mr. Aggregate accepted a bill drawn by Mr. Full for one month	2,000

They agree to settle their complete accounts by one single payment on 15th March, 2012. Prepare Mr. Aggregate in Account Current with Mr. Full and ascertain the amount to be paid. Ignore days of grace.

(8 Marks)

7. Answer any four out of five:

- (a) A plant was depreciated under two different methods as under:

Year	SLM (₹ in lakhs)	W.D.V. (₹ in lakhs)
1	7.80	21.38

2	<u>7.80</u>	<u>15.80</u>
	<u>15.60</u>	<u>37.18</u>
5	7.80	6.38

What should be the amount of resultant surplus/deficiency, if the company decides to switch over from W.D.V. method to SLM method for first four years?

- (b) The hire purchase price was payable ₹ 19,152 on 1.1.20X1 and ₹ 15,000 at the end of three successive years. Given the present value of an annuity of ₹ 1 p.a. @ 5% interest is ₹ 2.7232. Calculate the cash price with the help of annuity factor.
- (c) Inventories are usually written down to NRV on an item-by-item basis. Comment.
- (d) What are the reasons for increasing popularity of an ERP package in big organizations?
- (e) A company took a construction contract for ₹ 100 lakhs in January, 2011. It was found that 80% of the contract was completed at a cost of ₹ 92 lakhs on the closing date i.e. on 31.3.2012. The company estimates further expenditure of ₹ 23 lakhs for completing the contract. The expected loss would be ₹ 15 lakhs. Can the company recognise the loss in the financial statements prepared for the year ended 31.3.2012?
(5 Marks each)