

MOCK TEST PAPER - 2
IPCC : GROUP – I
PAPER – 1: ACCOUNTING
SUGGESTED ANSWERS/HINTS

1. (a) Calculation of sum of periods from the date of each transaction:

1st payment is made after 12 months from the date of loan.

2nd payment is made after 18 months from the date of loan.

3rd payment is made after 24 months from the date of loan.

4th payment is made after 30 months from the date of loan.

5th payment is made after $\frac{36}{120}$ months from the date of loan.

Average due date

$$= \text{Date of loan} + \frac{\text{Sum of months from 1st January, 2011 to the date of each installment}}{\text{Number of installments}}$$

$$= 1^{\text{st}} \text{ January, 2011} + \frac{120 \text{ months}}{5}$$

$$= 1^{\text{st}} \text{ January, 2011} + 24 \text{ months} = 1^{\text{st}} \text{ January, 2013}$$

$$\text{Interest} = ₹ 25,000 \times 10/100 \times 2 \text{ years} = ₹ 5,000$$

- (b)** As per AS 9 "Revenue Recognition", where the ability to assess the ultimate collection with reasonable certainty is lacking at the time of raising any claim, the revenue recognition is postponed to the extent of uncertainty inverted. In such cases, the revenue is recognized only when it is reasonably certain that the ultimate collection will be made.

In this case, the company never realized interest for the delayed payments made by the dealers. Hence, it has to recognize the interest only if the ultimate collection is certain. The interest income hence is not to be recognized.

- (c)** As per para 14.4, and para 32 of AS 10 loss of ₹ 150 lakhs should be taken to Revaluation reserve corresponding to these assets. Surplus of revaluation reserve following the retirement or disposal of an asset which relates to that asset may be transferred to general reserve. (Debit profit on sale of property, and credit loss on sale, and credit general reserve).
- (d)** The transfers should be made at lower of (a) Cost, and (b) Fair value at the date of transfer.

1. In this case, the transfer should be made at cost (being lower of ₹ 20 lakhs and ₹ 25 lakhs) and hence the long term investments should be carried at ₹ 20 lakhs.
2. In the second case, the transfer should be made at Market Value (being lower of ₹ 15 lakhs and ₹ 6.5 lakhs) and hence the long term investments should be carried at ₹ 6.50 lakhs. The loss of ₹ 15 – ₹ 6.5 = ₹ 8.5 lakhs should be provided for in the profit and loss account.
3. Here, the transfer should be made at carrying amount (being lower of ₹ 18 lakhs and ₹ 12 lakhs) and hence these reclassified current investments should be carried at ₹ 12 lakhs.

2. (i) Journal Entries (on admission of partners)

Date	Particulars	Debit (₹)	Credit (₹)
1 st April, 2011	X's capital A/c Dr.	20,000	
	Y's capital A/c Dr.	20,000	
	Z's capital A/c Dr.	20,000	
	To P's capital A/c		20,000
	To Q's capital A/c		20,000
	To R's capital A/c		20,000
	(Being goodwill adjusted through capital accounts)		
	Bank A/c Dr.	2,10,000	
	To X's capital A/c (20,000 + 50,000)		70,000
	To Y's capital A/c (20,000 + 50,000)		70,000
	To Z's capital A/c (20,000 + 50,000)		70,000
	(Being goodwill and capital brought in by new partners)		
	Bank A/c Dr.	1,50,000	
	To P's capital A/c		50,000
	To Q's capital A/c		50,000
	To R's capital A/c		50,000
	(Being capital brought in by existing partners)		

(ii)

Profit & Loss Account
for the year ended 31st March, 2012

Particulars	(₹)	Particulars	(₹)
To Medicines, injections and other consumables	1,00,000	By Visiting fee	2,75,000
To Printing and stationery	5,000	By Chamber fee	6,65,000
To Telephone expenses	5,000	By Fee for report, operation etc.	4,75,000
To Rent	42,000		
To Power and light	10,000		
To Nurses salary	20,000		
To Attendants wages	20,000		
To Depreciation			
X-ray machine 15,000			
ECG equipment 5,000			
Furniture 5,000			
Surgical equipment <u>5,000</u>	30,000		
To Interest on capital (W.N.3)	39,600		
To Net profit transferred to partners' capital accounts	<u>11,43,400</u>		
	<u>14,15,000</u>		<u>14,15,000</u>

(iii)

Partners' Capital Accounts
for the year ended 31st March, 2012

Debit side

Particulars	P ₹	Q ₹	R ₹	X ₹	Y ₹	Z ₹
To P, Q & R A/cs (Goodwill)	-	-	-	20,000	20,000	20,000
To Balance c/d	<u>4,56,600</u>	<u>3,96,600</u>	<u>3,31,600</u>	<u>2,69,400</u>	<u>1,64,400</u>	<u>2,24,400</u>
	<u>4,56,600</u>	<u>3,96,600</u>	<u>3,31,600</u>	<u>2,89,400</u>	<u>1,84,400</u>	<u>2,44,400</u>

Credit side

Particulars	P ₹	Q ₹	R ₹	X ₹	Y ₹	Z ₹
By Balance b/d	1,00,000	1,00,000	1,00,000	-	-	-
By X, Y & Z A/cs (Goodwill)	20,000	20,000	20,000	-	-	-
By Bank	50,000	50,000	50,000	70,000	70,000	70,000
By Interest on capital (W.N.3)	10,200	10,200	10,200	3,000	3,000	3,000
By Fee (share) (W.N.1)	2,05,000	1,45,000	80,000	1,45,000	40,000	1,00,000
By Profit (share) (W.N.2)	<u>71,400</u>	<u>71,400</u>	<u>71,400</u>	<u>71,400</u>	<u>71,400</u>	<u>71,400</u>
	<u>4,56,600</u>	<u>3,96,600</u>	<u>3,31,600</u>	<u>2,89,400</u>	<u>1,84,400</u>	<u>2,44,400</u>

Working Notes:**1. Statement showing distribution of fee among partners**

Partner's Name	Visiting fee (70%) (₹)	Chamber fee (50%) (₹)	Operation fee (40%) (₹)	Total (₹)
P	1,05,000	1,00,000	-	2,05,000
Q	17,500	87,500	40,000	1,45,000
R	-	50,000	30,000	80,000
X	70,000	75,000	-	1,45,000
Y	-	-	40,000	40,000
Z	-	<u>20,000</u>	<u>80,000</u>	<u>1,00,000</u>
	<u>1,92,500</u>	<u>3,32,500</u>	<u>1,90,000</u>	<u>7,15,000</u>

2. Statement showing distribution of profit among partners

	₹
Profits as per profit and loss account	11,43,400
Less: Fee payable to partners	<u>(7,15,000)</u>
Profit to be divided equally among partners	<u>4,28,400</u>

Share of each partner in remaining profit = ₹ 4,28,400/6 = ₹ 71,400.

3. Interest on capital employed

	P ₹	Q ₹	R ₹	X ₹	Y ₹	Z ₹
Opening balance	1,00,000	1,00,000	1,00,000	-	-	-
Add: Premium for goodwill shared equally by old partners	20,000	20,000	20,000	-	-	-
Add: Capital brought in cash	50,000	50,000	50,000	50,000	50,000	50,000
	<u>1,70,000</u>	<u>1,70,000</u>	<u>1,70,000</u>	<u>50,000</u>	<u>50,000</u>	<u>50,000</u>
Interest @ 6%	10,200	10,200	10,200	3,000	3,000	3,000

Total interest = ₹ 39,600.

Note: It is assumed that amount of premium for goodwill brought in by new partners X, Y and Z has not been withdrawn by old partners P, Q and R and it is still kept in the business.

3. Balance Sheet of MNO Ltd. as on 1st April, 2012

(₹ in crores)			
Liabilities	Amount	Assets	Amount
Share Capital:		Fixed Assets:	
4,80,00,000 Equity shares of ₹ 10 each	48.00	Land and Buildings	63.00
34,00,000 15% Preference Shares of ₹ 100 each	34.00	Plant and Machinery	41.00
(all the above shares are allotted as fully paid up pursuant to contracts without payment being received in cash)		Investments	16.00
Reserves and Surplus:		Current Assets, Loans and Advances:	
Security Premium (60 + 36 + 4 + 2.8)	102.80	A. Current Assets	
Capital Reserve (W.N.4)	4.70	Stock	37.00
Investment Allowance Reserve	9.00	Sundry Debtors	45.00
Secured Loans:		Cash at Bank	29.00
18% of Debentures (Rs.100 each)	7.50	B. Loans and Advances:	
Unsecured Loans		Bills Receivable	9.00
Current Liabilities and Provisions:		Miscellaneous Expenditure	

Sundry Creditors	26.00	(to the extent not written off or adjusted)	
Bills Payable	17.00	Amalgamation Adjustment Account	<u>9.00</u>
	<u>249.00</u>		<u>249.00</u>

Note: Since Investment Allowance Reserve is to be maintained for 4 years, it is carried forward by a corresponding debit to Amalgamation Adjustment Account in accordance with AS-14.

Working Notes:

1. Calculation of Net assets taken over (₹ in crores)

Particulars		OM Ltd.	NM Ltd.
Assets taken over:			
Land and Buildings		38	25
Plant and Machinery		24	17
Investments		10	6
Stock		22	15
Sundry Debtors		25	20
Bills Receivable		5	4
Cash at Bank		<u>16</u>	<u>13</u>
	(i)	<u>140</u>	<u>100</u>
Liabilities taken over:			
Debentures		3.33	4.17
Sundry Creditors		19.00	7.00
Bills Payable		<u>12.00</u>	<u>5.00</u>
	(ii)	<u>34.33</u>	<u>16.17</u>
Net assets taken over	(i) – (ii)	105.67	83.83

2. Calculation of No. of Debentures to be issued in MNO Ltd.

OM Ltd.

Existing Debenture interest @ 15% = ₹ 400 lakhs x 15/100 = ₹ 60 lakhs

Debentures to be issued in Z Ltd. @ 18% to maintain the same amount of interest

= ₹ 60 lakhs x 100/18 = ₹ 333.33 lakhs

or ₹ 3.33 crores

NM Ltd.

Existing Debenture interest @15% = ₹ 500 lakhs x 15/100 = ₹ 75 lakhs

Debentures to be issued in MNO Ltd. @ 18% to maintain the same amount of interest

$$= ₹75 \times 100/18 = ₹ 416.67 \text{ lakhs}$$

or ₹ 4.17 crores

3. Computation of Purchase Consideration:

(₹ in crores)

	OM Ltd.	NM Ltd.
1. Equity Shareholders		
₹ 50 crores, $\frac{6}{10}$, ₹ 30	90	
₹ 45 crores, $\frac{2}{5}$, ₹ 30		54
2. Preference Shareholders		
₹ 20 crores, ₹ 120	24	
₹ 14 crores, ₹ 120		
₹ 100		
		<u>16.8</u>
Total Purchase consideration	<u>114</u>	<u>70.8</u>

4. Calculation of Goodwill/Capital Reserve

(₹ in crores)

Particulars	OM Ltd.	NM Ltd.
Net Assets takeover	105.67	83.83
Less: Purchase Consideration	<u>(114.00)</u>	<u>(70.80)</u>
Goodwill	8.33	---
Capital Reserve	<u>---</u>	<u>13.03</u>

Note: Goodwill arising from amalgamation shall be adjusted against capital Reserve arising from amalgamation, and only balance of ₹.4.70 crores is to be shown in the Balance Sheet of MNO Ltd as capital reserve.

4. Trading and Profit and Loss Account of Mr. Incomplete for the year ended 31st March, 2012

	₹		₹
To Opening stock (balancing figure)	80,000	By Sales	4,00,000
To Purchases	2,40,000	By Closing stock	40,000
To Gross profit c/d @ 30% on sales	<u>1,20,000</u>		
	<u>4,40,000</u>		<u>4,40,000</u>

To	Miscellaneous expenses (₹ 80,000 – ₹ 8,000 + ₹ 10,000)	82,000	By	Gross profit b/d	1,20,000
To	Depreciation:		By	Miscellaneous receipts	20,000
	Building ₹ 36,000		By	Net loss transferred to Capital A/c	25,840
	Furniture ₹ 7,800 (₹ 6,800 + ₹ 1,000)				
	Motor Car ₹ <u>16,000</u>	59,800			
To	Loss on sale of furniture	11,000			
To	Bad debts	8,000			
To	Provision for doubtful debts	<u>5,040</u>			
		<u>1,65,840</u>			<u>1,65,840</u>

Balance Sheet of Mr. Incomplete
as on 31st March, 2012

Liabilities	₹	₹	Assets	₹	₹
Capital as on 1 st April, 2011		7,16,000	Building	3,20,000	
Profit and Loss A/c			Add: Addition		
Opening balance	40,000		during the year	<u>40,000</u>	
Less: Loss for the				3,60,000	
year	<u>(25,840)</u>	14,160	Less: Provision for	<u>(36,000)</u>	3,24,000
			depreciation		
Sundry creditors		1,12,000	Furniture	60,000	
Bills payable		16,000			
Outstanding salary		10,000	Less: Sold during	<u>(20,000)</u>	
			the year	40,000	
			Add: Addition		
			during the year	<u>28,000</u>	
				68,000	
			Less: Depreciation	<u>(6,800)</u>	61,200
			Motor car (at cost)	80,000	
			Less: Depreciation	<u>(16,000)</u>	64,000
			Stock in trade		40,000

			Sundry debtors	2,52,000	
			Less: Provision for doubtful debts @ 2%	<u>(5,040)</u>	2,46,960
			Bills receivable		28,000
			Cash in hand and at bank		<u>1,04,000</u>
		<u>8,68,160</u>			<u>8,68,160</u>

Working Notes:

Sundry Debtors Account

	₹		₹
To Balance b/d	1,60,000	By Cash/Bank A/c	2,00,000
To Sales A/c	3,20,000	By Bills Receivable A/c	20,000
		By Bad debts A/c	8,000
		By Balance c/d (bal. fig.)	<u>2,52,000</u>
	<u>4,80,000</u>		<u>4,80,000</u>

Sundry Creditors Account

	₹		₹
To Cash/Bank A/c	1,84,000	By Balance b/d	1,20,000
To Bills Payable A/c	16,000	By Purchases A/c	1,92,000
To Balance c/d (bal. fig)	<u>1,12,000</u>		
	<u>3,12,000</u>		<u>3,12,000</u>

Bills Receivable Account

	₹		₹
To Balance b/d	32,000	By Cash/ Bank A/c (bal. fig)	24,000
To Sundry Debtors A/c	<u>20,000</u>	By Balance c/d	28,000
	<u>52,000</u>		<u>52,000</u>

Bills Payable Account

	₹		₹
To Cash/Bank A/c (bal. fig)	28,000	By Balance b/d	28,000
To Balance c/d	<u>16,000</u>	By Sundry Creditors A/c	16,000
	<u>44,000</u>		<u>44,000</u>

Furniture Account

	₹		₹
To Balance b/d	60,000	By Bank/Cash A/c	8,000
To Bank A/c	28,000	By Depreciation A/c	1,000
		By Profit and loss A/c (loss on sale)	11,000
		By Depreciation A/c	6,800
		By Balance c/d	<u>61,200</u>
	<u>88,000</u>		<u>88,000</u>

Cash/Bank Account

	₹		₹
To Balance b/d	1,80,000	By Misc. trade expenses A/c	80,000
To Miscellaneous receipts A/c	20,000	By Purchases A/c	48,000
To Sundry Debtors A/c	2,00,000	By Furniture A/c (bal. fig)	28,000
To Sales A/c	80,000	By Sundry Creditors A/c	1,84,000
To Furniture A/c (sale)	8,000	By Bills Payable A/c	28,000
To Bills Receivable A/c	24,000	By Building A/c	40,000
	<u>5,12,000</u>	By Balance c/d	<u>1,04,000</u>
			<u>5,12,000</u>

Opening Balance Sheet of Mr. Incomplete as on 31st March, 2011

Liabilities	₹	Assets	₹
Capital (bal. fig)	7,16,000	Building	3,20,000
Profit and loss A/c	40,000	Furniture	60,000
Sundry Creditors	1,20,000	Motor car	80,000
Bills Payable	28,000	Stock in trade	80,000
Outstanding salary	8,000	Sundry Debtors	1,60,000
		Bills Receivable	32,000
		Cash in hand and at bank	<u>1,80,000</u>
	<u>9,12,000</u>		<u>9,12,000</u>

5. (a)

In the books of Assure Ltd.

Journal Entries

		₹	₹
(i)	Share Final Call A/c	Dr. 2,00,000	
	To Share Capital A/c		2,00,000
	(Being the final call of ₹ 2.50 each on 80,000 equity shares made)		
(ii)	Bank A/c	Dr. 2,00,000	
	To Share Final Call A/c		2,00,000
	(Being the amount due on final call received)		
(iii)	General Reserves A/c	Dr. 3,00,000	
	Securities Premium A/c	Dr. 1,00,000	
	To Bonus to Share holders A/c		4,00,000
	(Being the appropriation made as above to facilitate issue of fully paid up bonus shares at the rate of one share for every two shares held)		
(iv)	Bonus to Shareholders A/c	Dr. 4,00,000	
	To Equity Share Capital A/c		4,00,000
	(Being the issuance of 40,000 fully paid up shares of ₹ 10 each by way of bonus)		

Balance Sheet (after bonus issue)

Liabilities	Amount ₹	Assets	Amount ₹
Authorised Share Capital: 1,50,000 equity shares of ₹ 10 each	<u>15,00,000</u>	Bank	2,00,000
Issued and Subscribed: 1,20,000 Equity Shares of ₹ 10 each fully paid	12,00,000	Sundry Assets	17,00,000
(Of the above, 40,000 equity shares are allotted as fully paid up by way of bonus shares)			
Reserves and Surplus:			
Capital Redemption Reserve	1,50,000		
Securities Premium	50,000		
Development Rebate Reserve	2,30,000		
Investment Allowance Reserve	2,50,000		
Plant Revaluation Reserve	<u>20,000</u>		
	<u>19,00,000</u>		<u>19,00,000</u>

(b)

In the General Ledger
Sales Ledger Adjustment Account

		₹			₹
1.4.2011	To Balance b/d	1,41,880	1.4.2011	By Balance b/d	2,240
31.3.2012	To General Ledger		31.3.2012	By General Ledger	
	Adjustment A/c:			Adjustment A/c:	
	Sales (Cr.)	7,28,000		Sales return	10,000
	Cash paid to customers	1,840		Cash from customers	6,24,000
	Bills receivable dishonoured	6,000		Discount allowed	11,200
	To Balance c/d	13,720		Transfer to bought ledger	20,800
				Bill receivable received	40,000
				By Balance c/d	1,83,200
		<u>8,91,440</u>			<u>8,91,440</u>

Bought Ledger Adjustment Account

		₹			₹
1.4.2011	To Balance b/d	10,000	1.4.2011	By Balance b/d	96,000
31.3.2012	To General Ledger		31.3.2012	By General Ledger	
	Adjustment A/c:			Adjustment A/c:	
	Purchases returns	20,000		Purchases	5,40,000
	Cash paid	4,80,000		By Balance c/d	10,400
	Transfer from sales ledger	20,800			
	Discount received	7,200			
	Bills payable accepted	22,400			
	To Balance c/d	<u>86,000</u>			
		<u>6,46,400</u>			<u>6,46,400</u>

6. (a) Profit and Loss Account for 9 months ended on 30th September, 2011

Particulars	W.N.	Total ₹	Pre- incorporation 1.1.2011 to 30.4.2011	Post- incorporation 1.5.2011 To 30.9.2011	Particulars	W.N.	Total ₹	Pre- incorporation 1.1.2011 to 30.4.2011	Post- incorporation 1.5.2011 To 30.9.2011
To General expenses	2	14,220	6,320	7,900	By Gross profit	1	56,000	16,000	40,000
To Director's fee	3	5,000	-	5,000					
To Formation exp.	4	1,500	-	1,500					
To Rent	5	1,350	400	950					
To Manager's salary	6	2,000	2,000	-					
To Net profit-		31,930	-	-					
-Capital Reserve		-	7,280	-					
-P&L Appropriation		-	-	24,650					
		<u>56,000</u>	<u>16,000</u>	<u>40,000</u>			<u>56,000</u>	<u>16,000</u>	<u>40,000</u>

Working Notes:

- (1) Let the average monthly sales of first four months be ₹ 100. Then the average monthly sales of next five months will be ₹ 200.

Total sales of first four months = ₹ 100 × 4 = ₹ 400 and that of next five months = ₹ 200 × 5 = ₹ 1,000. The ratio of sales = 400:1000 or 2:5

The gross profit is apportioned on the basis of sales, i.e., 2:5. Therefore, the gross profit is apportioned as:

$$\text{Pre} = \frac{\text{₹ } 56,000}{7} \times 2 = \text{₹ } 16,000; \quad \text{Post} = \frac{\text{₹ } 56,000}{7} \times 5 = \text{₹ } 40,000.$$

- (2) General expenses accrue evenly throughout the period and are, therefore, divided on the basis of time.

$$\text{Pre} = \frac{\text{₹ } 14,220}{9} \times 4 = \text{₹ } 6,320; \quad \text{Post} = \frac{\text{₹ } 14,220}{9} \times 5 = \text{₹ } 7,900.$$

- (3) Directors' fee payable @ ₹ 1,000 per month. It is to be found in company only. So ₹ 5,000 (5 × ₹ 1,000) must naturally be shown in post incorporation period.
- (4) Formation expenses though incurred in point of time, before the company was incorporated, are charge against the post incorporation profit.
- (5) Rent for first four months = ₹ 100 × 4 = ₹ 400.
For next five months = (₹ 100 × 2) + (₹ 250 × 3) = ₹ 950.
- (6) Salary to manager is related to pre-incorporation period only. Salary to be charged = ₹ 500 × 4 = ₹ 2,000.

6. (b)

Mr. Aggregate in Account Current with Mr. Full

(Interest upto 15th March, 2012 @ 10% p.a.)

Date	Particulars	Amount	Days	Product	Date	Particulars	Amount	Days	Product
2012					2012				
Jan. 01	To Balance b/d	4,000	75	3,00,000	Jan. 29	By Purchase account	1,200	46	55,200
Jan. 15	To Sales account	2,230	60	1,33,800	Feb. 10	By Cash account	1,000	34	34,000
Mar. 13	To Red Ink product (₹ 2,000 × 29)			58,000	Mar. 13	By Bills Receivable account	2,000		
Mar. 15	To Interest account $\frac{₹ 4,02,600 \times 10 \times 1}{100 \times 366}$	110			Mar. 15	By Balance of product			4,02,600
						By Balance c/d (amount to be paid)	2,140		
		<u>6,340</u>		<u>4,91,800</u>			<u>6,340</u>		<u>4,91,800</u>

7. (a) As per para 21 of AS 6 'Depreciation Accounting' when a change in the method of depreciation is made, depreciation should be recalculated in accordance with the new method from the date of the asset coming into use. The deficiency or surplus arising from retrospective recomputation of depreciation in accordance with the new method should be adjusted in the accounts in the year in which the method of depreciation is changed. In the given case, there is a surplus of ₹ 21.58 lakhs on account of change in method of depreciation, which will be credited to Profit and Loss Account. Such a change should be treated as a change in accounting policy and its effect should be quantified and disclosed.

(b)

Cash Price	=	Down Payment + Present Value of Instalments
	=	₹ 19,152 + (₹ 15,000 x 2.7232)
	=	₹ 19,152 + ₹ 40,848
	=	₹ 60,000

- (c) Inventories are usually written down to Net Realisable Value on an item-by-item basis. They should not be valued at Net Realisable Value on-

1. Wholistic basis i.e. all items of inventory taken together and
2. Classification basis e.g. all finished goods, or all inventories in a particular business segment.

Exceptions: In special circumstances, it may be appropriate to group similar or related items, viz., inventory items

1. relating to the same product line that have similar purposes or end uses;
2. produced and marketed in the same geographical area; and
3. cannot be practicably evaluated separately from other items in the product line.

- (d) Larger organisations often go for an ERP package where finance comes as a module. An ERP is an integrated software package that manages the business process across the entire enterprise.

Following advantages of using an ERP for maintaining accounts make ERP packages popular day by day:

1. Standardised processes and procedures : An ERP is a generalised package which covers most of the common functionalities of any specific module.
2. Standardised reporting : Majority of the desired reports are available in an ERP package. These reports are standardised across industry and are generally acceptable to the users.
3. Duplication of data entry is avoided as it is an integrated package.

4. Greater information is available through the package.

- (e) As per paragraphs 31 and 35 of AS 7 on Construction Contracts, an expected loss on the construction contract should be recognized as an expense immediately irrespective of (i) whether or not the work has commenced on the contract; or (ii) the stage of completion of the contract; or (iii) the amount of profits expected to arise in other contracts.

Hence, the company must recognize the loss immediately.