

MOCK TEST PAPER - 2
INTERMEDIATE (IPC): GROUP – I
PAPER – 1: ACCOUNTING
SUGGESTED ANSWERS/HINTS

- 1 (a) As per AS 10 'Accounting for Fixed Assets,' the cost of fixed assets may undergo changes subsequent to its acquisition or construction, price adjustments, changes in duties or similar factors. Therefore, the treatment done by company is not correct as per the provisions of AS 10. ₹ 5 lakhs should be deducted from the cost of fixed assets.
- (b) As per AS 3 'Cash Flow Statements', it is considered more appropriate that dividends paid should be classified as cash flows from financing activities because they are cost of obtaining financial resources. When it is practicable to identify the tax cash flow with an individual transaction that gives rise to cash flows that are classified as investing or financing activities, the tax cash flow is classified as an investing or financing activity as appropriate. Thus both dividend paid and CDT paid should be shown as financing activities as per AS 3 (Revised) "Cash Flow Statements". Thus the treatment done by X Ltd. is not correct.
- (c) As per AS 7 '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.

Therefore, Mr. Shyam is required to treat construction of each unit as a separate construction contract.

(d) Calculation of Salary Expense

Particulars	₹
Salaries Paid	42,00,000
Add: Outstanding Salaries for 2012	2,30,000
Less: Unpaid Salaries of 2011 included in current year payment	(1,70,000)
Add: Prepaid Salaries as on 31 st Dec. 2011	65,000
Less: Prepaid Salaries as at end of 2012	<u>(95,000)</u>
Salary Expense as per Income and Expenditure A/c	<u>42,30,000</u>

Disclosure in the Financial Statements

Income & Expenditure A/c (An extract) for the year ended 31st December, 2012

	₹		₹
To Salaries	42,30,000		

Balance Sheet as on 31st December, 2012 (An extract)

Liabilities	₹	Assets	₹
Outstanding salaries	2,30,000	Prepaid salaries	95,000

2. (a) (i) Calculation of equity shares to be issued to Neel Ltd. and Gagan Ltd.

Profits of	Neel ₹	Gagan ₹
I year	2,62,800	2,75,125
II year	<u>2,12,200</u>	<u>2,49,875</u>
Total	<u>4,75,000</u>	<u>5,25,000</u>

No. of shares to be issued = 24,000 equity shares in the proportion of the preceding 2 years' profitability

	Neel	Gagan
24,000 x 475/1000	11,400 equity shares	
24,000 x 525/1000		12,600 equity shares

Calculation of 12% Preference shares to be issued to Neel Ltd. and Gagan Ltd.

	Neel ₹	Gagan ₹
Net assets (Refer working note)	8,40,000	9,24,000
8% return on Net assets	67,200	73,920
12% Preference shares to be issued	56,000 shares	
$67,200 \times \frac{100}{12} = 5,60,000 @ ₹ 10 \text{ each}$		
$73,920 \times \frac{100}{12} = 6,16,000 @ ₹ 10 \text{ each}$		61,600 shares

(ii) **Total Purchase Consideration**

	<i>Neel</i>	<i>Gagan</i>
	₹	₹
Equity shares @ of ₹ 25 each	2,85,000	3,15,000
12% Preference shares @ of ₹ 10 each	<u>5,60,000</u>	<u>6,16,000</u>
Total	<u>8,45,000</u>	<u>9,31,000</u>

Working Note

Calculation of Net assets as on 31.3.2012

	<i>Neel</i>	<i>Gagan</i>
	₹	₹
Plant and machinery	5,25,000	6,75,000
Building	7,75,000	6,48,000
Current assets	1,63,500	1,58,600
Less: Current liabilities	<u>(6,23,500)</u>	<u>(5,57,600)</u>
	<u>8,40,000</u>	<u>9,24,000</u>

(b) Amount that can be drawn from reserves for 10% dividend

10% dividend on ₹80,00,000 ₹8,00,000

Profits available

Add: Current year profit 3,00,000

Less: Preference dividend 1,57,500

1,42,500

Amount which can be utilized from reserves 6,57,500

Conditions as per Companies (Declaration of dividend out of Reserves) Rules, 1975:

Condition I

Since 10% is lower than the average rate of dividend (12%), 10% dividend can be declared.

Condition II

Maximum amount that can be drawn from the accumulated profits and reserves should not exceed 10% of paid up capital plus free reserves ie. ₹12,25,000 [10% of (80,00,000+17,50,000+25,00,000)]

Condition III

The balance of reserves after drawl ₹ 18,42,500 (₹ 25,00,000 - ₹ 6,57,500) shall not fall below 15 % of its paid up capital ie. ₹ 14,62,500 (15% of ₹ 97,50,000]

Since all the three conditions are satisfied, the company can withdraw ₹ 6,57,500 from accumulated reserves.

3 (a) Let us take 12.07.2012 as Base date.

Bills receivable

Due date	No. of days from 12.07.2012	Amount	Product
04/09/2012	54	3,000	1,62,000
08/09/2012	58	2,500	1,45,000
12/07/2012	0	6,000	0
14/08/2012	33	1,000	33,000
23/09/2012	73	<u>1,500</u>	<u>1,09,500</u>
		<u>14,000</u>	<u>4,49,500</u>

Bills payable

Due date	No. of days from 12.07.2012	Amount	Product
01/08/2012	20	2,000	40,000
07/09/2012	57	3,000	1,71,000
12/07/2012	0	<u>6,000</u>	<u>0</u>
		<u>11,000</u>	<u>2,11,000</u>

Excess of products of bills receivable over bills payable = 4,49,500 - 2,11,000 = 2,38,500

Excess of bills receivable over bills payable = 14,000 – 11,000 = 3,000

Number of days from the base date to the date of settlement is $2,38,500 / 3,000 = 79.5$ (approx.)

Hence date of settlement of the balance amount is 80 days after 12th July i.e. 30th September.

On 30th September, 2012 Sohan has to pay Manoj ₹ 3,000 to settle the account.

(b)

Journal Entries in the Books of ABC Ltd.

<i>Particulars</i>		₹	₹
8% Preference share capital A/c To Preference shareholders A/c To Capital reduction A/c [Being 30% reduction in liability of preference share capital]	Dr.	6,00,000	4,20,000 1,80,000
Preference shareholders A/c To 11% Debentures A/c [Being the issue of debentures to preference shareholders]	Dr.	4,20,000	4,20,000
9% Debentures A/c To Debenture holders A/c [Being transfer of 9% debentures to debenture holders A/c]	Dr.	12,00,000	12,00,000
Debenture holders A/c To Plant & machinery A/c To Capital reduction A/c [Settlement of debenture holders by allotment of plant & machinery]	Dr.	12,00,000	9,00,000 3,00,000
Trade payables A/c To Inventory A/c To Capital reduction A/c [Being settlement of creditors by giving stocks]	Dr.	5,92,000	5,00,000 92,000
Bank A/c To 11% Debentures A/c [Being fresh issue of debentures]	Dr.	3,00,000	3,00,000
Bank overdraft A/c To Bank A/c [Being settlement of bank overdraft]	Dr.	1,50,000	1,50,000
Capital reduction A/c To Investment A/c To Profit and loss A/c To Capital reserve A/c [Being decrease in investment and profit and loss account (Dr. bal.); and balance of capital reduction account transferred to capital reserve]	Dr.	5,72,000	13,000 4,05,000 1,54,000

4. (a) **Journal Entries in the books of the Firm**

	Particulars	Dr. (₹)	Cr. (₹)
1.	Joint Life Policy A/c Dr. To A's Capital A/c (₹ 36,000 x 2/6) To B's Capital A/c (₹ 36,000 x 3/6) To C's Capital A/c (₹ 36,000 x 1/6) (Being Surrender Value of Joint Life Policy brought into books of account)	36,000	12,000 18,000 6,000
2.	Goodwill A/c Dr. To A's Capital A/c To B's Capital A/c To C's Capital A/c (Being Goodwill raised in the books of firm on K's Admission)	1,24,000	44,000 66,000 14,000
3.	Motor Car A/c Dr. Furniture A/c Dr. Fee Receivable A/c Dr. To Revaluation A/c (Being appreciation in the value of assets on revaluation)	6,000 6,000 30,000	42,000
4.	Revaluation A/c Dr. To Outstanding Expenses A/c (Being expenses incurred but not provided for)	9,000	9,000
5.	Revaluation A/c Dr. To A's Capital A/c (₹ 33,000 x 2/6) To B's Capital A/c (₹ 33,000 x 3/6) To C's Capital A/c (₹ 33,000 x 1/6) (Being profit on Revaluation transferred to Existing Partners in old Profit sharing ratio)	33,000	11,000 16,500 5,500
6.	B's Capital A/c Dr. To Motor Car A/c (Being Motor Car taken over by B at agreed value)	56,000	56,000
7.	Goodwill A/c Dr. To K's Capital A/c (Being personal Goodwill brought in by K)	20,000	20,000

8.	A's Capital A/c	Dr.	36,000	
	B's Capital A/c	Dr.	54,000	
	C's Capital A/c	Dr.	18,000	
	K's Capital A/c	Dr.	36,000	
	To Goodwill A/c			1,44,000
(Being Goodwill written off in the Books in New Profit sharing ratio 2:3:1:2 as per AS-10)				
9.	Bank A/c	Dr.	60,333	
	To K's Capital A/c			60,333
(Being money brought in by K as her share of Capital)				
10.	Bank A/c	Dr.	53,333	
	To A's Capital A/c			53,333
(Being money brought in by A to make his Capital proportionate to New Profit sharing ratio)				
11.	B's Capital A/c	Dr.	4,000	
	C's Capital A/c	Dr.	49,333	
	To Bank A/c			53,333
(Being amount paid to B and C, to make their Capitals proportionate to the new Profit sharing ratio)				

(b) Balance Sheet of the Firm as on 31st March (after K's admission)

Liabilities	₹	Assets	₹
Capital Account:		Non-Current Assets:	
A	44,333	Furniture	36,000
B	66,500	Investments in Joint Life Policy	36,000
C	22,167	Current Assets:	
K	44,333	Fee Receivable	30,000
Current Liabilities:		Cash at Bank (W.N 6)	79,333
Outstanding Expenses	<u>9,000</u>	Cash in Hand	<u>5,000</u>
	<u>1,86,333</u>		<u>1,86,333</u>

Working notes

1. Calculation of New Profit sharing ratio

K is admitted for $\frac{1}{4}$ th share

A's New ratio	$\frac{2}{6} \times \frac{3}{4}$	$\frac{2}{8}$
B's New ratio	$\frac{3}{6} \times \frac{3}{4}$	$\frac{3}{8}$
C's New ratio	$\frac{1}{6} \times \frac{3}{4}$	$\frac{1}{8}$

New profit sharing ratio = 2:3:1:2

2. Calculation of Goodwill

Year	Profit	Weights	Weighted Profits
	₹		₹
1	54,000	1	54,000
2	60,000	2	1,20,000
3	66,000	3	<u>1,98,000</u>
Total		6	<u>3,72,000</u>

Weighted Average Profit ₹ 3,72,000 ÷ 6 = 62,000

Goodwill at 2 years purchase ₹ 62,000 x 2 = 1,24,000

3. Statement showing distribution of Goodwill

Particulars	A	B	C	Total
First - ₹ 84,000 to be distributed among all the Partners in the ratio of 2:3:1	28,000	42,000	14,000	84,000
Balance - ₹ 40,000 to be distributed between A and B in the ratio of 2:3	<u>16,000</u>	<u>24,000</u>		<u>40,000</u>
Total	<u>44,000</u>	<u>66,000</u>	<u>14,000</u>	<u>1,24,000</u>

4.

Partners' Capital Accounts

<i>Particulars</i>	<i>A</i>	<i>B</i>	<i>C</i>	<i>K</i>	<i>Particulars</i>	<i>A</i>	<i>B</i>	<i>C</i>	<i>K</i>
To Balance b/d	40,000	-	-		By bal. b/d	-	80,000	64,000	-
To Motor Car	-	56,000	-		By Joint Life Policy	12,000	18,000	6,000	-
To Goodwill	36,000	54,000	18,000	36,000	By Goodwill	44,000	66,000	14,000	-
To balance c/d	-	70,500	71,500	-	By Goodwill	-	-	-	20,000
					By Revaluation A/c	11,000	16,500	5,500	-
					By bal. c/d	<u>9,000</u>	-	-	<u>16,000</u>
Total	<u>76,000</u>	<u>1,80,500</u>	<u>89,500</u>	<u>36,000</u>	Total	<u>76,000</u>	<u>1,80,500</u>	<u>89,500</u>	<u>36,000</u>
To balance b/d	9,000	-	-	16,000	By bal. b/d	--	70,500	71,500	-
To Bank (bal. fig.)	-	4,000	49,333	-	By Bank (bal. fig.)	53,333	-	-	60,333
To balance c/d (WN 6)	<u>44,333</u>	<u>66,500</u>	<u>22,167</u>	<u>44,333</u>					
Total	<u>53,333</u>	<u>70,500</u>	<u>71,500</u>	<u>60,333</u>	Total	<u>53,333</u>	<u>70,500</u>	<u>71,500</u>	<u>60,333</u>

5. Calculation of Proportionate Capital of Partners

Combined Capital of A, B, C (Existing Partners) –balance derived in Partners' Capital Account (WN 4) = ₹ 70,500 + ₹ 71,500 - ₹ 9,000	₹ 1,33,000
Share of A, B and C in the new firm after deducting K's 1/4 th Share	3/4 th
Total Capital of the Firm after K's admission = ₹ 1,33,000 ÷ 3/4 th	₹ 1,77,333

Therefore Proportionate Capital of Partners in 2:3:1:2

A	1,77,333 x 2/8	=	44,333
B	1,77,333 x 3/8	=	66,500
C	1,77,333 x 1/8	=	22,167
K	1,77,333 x 2/8	=	44,333

6. Cash at Bank = 19,000 + 60,333 + 53,333 – 53,333 = 79,333.

5. (a) Statement showing Apportionment of Profit between Pre-and Post-incorporation Period

Particulars	Basis	Total	Pre-incorporation 1.1.2012 to 30.4.2012 (4 months)	Post-incorporation 1.5.2012 to 31.12.2012 (8 months)
Gross Profit (A)	Sales (1:3)	3,00,000	75,000	2,25,000
Less: Expenses (B)				
Rent, Rates and Insurance	Time	18,000	6,000	12,000
Director's Fees		20,000	-	20,000
Salaries	Time	51,000	17,000	34,000
Office Expenses	Time	48,000	16,000	32,000
Travellers' Commission	Sales	12,000	3,000	9,000
Discount	Sales	15,000	3,750	11,250
Bad Debts	Sales	3,000	750	2,250
Depreciation	Time	15,000	5,000	10,000
Debenture Interest		4,500	-	4,500
		<u>1,86,500</u>	<u>51,500</u>	<u>1,35,000</u>
Net Profit (A-B)		1,13,500	23,500	90,000
			Capital Profit	Net Profit

Working Notes:

- (1) Gross profit is apportioned in the ratio of sales which is calculated as follows:

Pre-incorporation period	Weight	Post-incorporation	Weight
January	1	May	1
February	$\frac{1}{2}$	June	1
March	1	July	1
April	$\frac{1}{2}$	August	1
		September	1
		October	1
		November	$1\frac{1}{2}$
		December	$1\frac{1}{2}$
	3		9

Therefore, sales ratio = 3:9 or 1:3

- (2) Directors' fees and Debenture interest are generally paid in case of company only. These must be shown in the post-incorporation period.
- (b) Memorandum Trading A/c for the period from 1.10.12 to 1.12.12

	₹		₹
To Opening stock $\left(59,400 \times \frac{100}{90}\right)$	66,000	By Sales	2,80,000
To Purchases (1,50,000 – 10,000)	1,40,000	By Closing stock (Bal. fig)	61,000
To Wages (66,000 – 1,000)	65,000		
To Gross profit (1/4 on sales)	<u>70,000</u>		
	<u>3,41,000</u>		<u>3,41,000</u>

Calculation of Insurance Claim

	₹
Stock on the date of fire 31.12.2012	61,000
Less: Stock salvaged	<u>(6,000)</u>
Stock destroyed by fire	<u>55,000</u>

Claim subject to average clause

$$= \left(\frac{50,000}{61,000} \right) \times 55,000 = ₹ 45,082$$

Net claim for loss of stock policy = ₹ 45,082

6.

**Trading and Profit and Loss Account of Mr. Rajeev
for the year ended 31st December, 2012**

		₹		₹
To Opening Stock		8,000	By Sales	74,400
To Purchases		45,600	By Closing stock	7,000
To Freight inwards		3,000		
To Gross profit c/d		<u>24,800</u>		
		<u>81,400</u>		<u>81,400</u>
To Sundry expenses(W.N.6)		14,200	By Gross profit b/d	24,800
To Discount allowed –			By Discount received	800
Debtors	1,500		By Miscellaneous income	500
Bills Receivable	<u>125</u>	1,625		
To Depreciation on furniture		650		
To Net Profit		<u>9,625</u>		
		<u>26,100</u>		<u>26,100</u>

Balance Sheet as on 31st December, 2012

Liabilities		Amount ₹	Assets		Amount ₹
Capital as on 1st January, 2012	18,800		Furniture	6,000	
Less : Drawings (W.N.5)	(8,000)		Additions during the year	1,000	
	10,800			7,000	
Add : Net Profit	9,625	20,425	Less : Depreciation	(650)	6,350
Sundry creditors		15,000	Closing Stock		7,000
Outstanding expenses		1,800	Sundry debtors		20,800
			Bills receivable		1,750
			Cash in hand and at bank		625
			Prepaid expenses		700
		37,225			37,225

Working Notes:

(1) Capital on 1st January, 2012

Balance Sheet as on 1st January, 2012

<i>Liabilities</i>	₹	<i>Assets</i>	₹
Capital (Balancing figure)	18,800	Furniture (w.d.v.)	6,000
Creditors	11,000	Stock at cost	8,000
Outstanding expenses	2,000	Debtors	16,000
		Cash in hand and at bank	1,200
		Prepaid expenses	600
	31,800		31,800

(2) Purchases made during the year

Creditors Account

	₹		₹
To Cash and bank A/c	39,200	By Balance b/d	11,000
To Discount received A/c	800	By Debtors A/c	400
To Bills Receivable A/c	2,000	By Purchases A/c (Bal.fig.)	45,600
To Balance c/d	15,000		
	57,000		57,000

(3) Sales made during the year

	₹
Opening stock	8,000
Purchases	45,600
Freight inwards	3,000
	56,600
Less : Closing stock	(7,000)
Cost of goods sold	49,600
Add : Gross profit (@ 50% on cost)	24,800
	74,400

(4) Debtors on 31.12.2012

Debtors Account

	₹		₹
To Balance b/d	16,000	By Cash and bank A/c	58,500
To Sales A/c	74,400	By Discount allowed A/c	1,500
To Creditors A/c (bill dishonoured)	400	By Bills receivable A/c	10,000
		By Balance c/d (Bal.fig.)	20,800
	90,800		90,800

(5) Additional drawings by Mr. Rajeev

Cash and Bank Account

	₹		₹
To Balance b/d	1,200	By Freight inwards A/c	3,000
To Sundry debtors A/c	58,500	By Furniture A/c	1,000
To Bills Receivable A/c	6,125	By Expenses A/c	14,500
To Miscellaneous income A/c	500	By Creditors A/c	39,200
		By Drawings A/c (₹ 7,000+₹ 1,000)	8,000
		By Balance c/d	625
	66,325		66,325

(6) Amount of expenses debited to Profit and Loss A/c

Expenses Account

	₹		₹
To Prepaid expenses A/c (on 1.1.2012)	600	By Outstanding expenses A/c (on 1.1.2012)	2,000
To Bank A/c	14,500	By Profit and Loss A/c (Balancing figure)	14,200
To Outstanding expenses A/c (on 31.12.2012)	1,800	By Prepaid expenses A/c (on 31.12.2012)	700
	16,900		16,900

(7) Bills Receivable on 31.12.2012

Bills Receivable Account

	₹		₹
To Debtors A/c	10,000	By Creditors A/c	2,000
		By Bank A/c	6,125
		By Discount on bills receivable A/c	125
		By Balance c/d (Bal.fig.)	<u>1,750</u>
	<u>10,000</u>		<u>10,000</u>

7. (a) Revised Schedule VI has come into force for the Balance Sheet and Profit and Loss Account prepared for the financial year commencing on or after 1st April, 2011. As per Part I of the Revised Schedule VI, a company shall, inter alia, disclose in notes to accounts for the period of 5 years immediately preceding the balance sheet date (31st March, 2012 in the instant case) the aggregate number and class of shares allotted as fully paid-up bonus shares. Revised Schedule VI does not require a company to disclose the source from which bonus shares have been issued. Therefore, non-disclosure of source from which bonus shares have been issued does not violate the Revised Schedule VI to the Companies Act, 1956.

(b) Journal Entries in the books of Bharat Ltd.

		Dr.	Cr.
		₹ in lakhs	₹ in lakhs
Capital Reserve A/c	Dr.	30,000	
Capital Redemption Reserve A/c	Dr.	25,000	
Securities Premium A/c	Dr.	30,000	
General Reserve A/c	Dr.	15,000	
To Bonus to Shareholders A/c			1,00,000
(Bonus issue of one share for every four shares held, by utilising various reserves as per Board's resolution dated.....)			
Bonus to Shareholders A/c	Dr.	1,00,000	
To Equity Share Capital A/c			1,00,000
(Capitalisation of profit)			

Note: Capital reserve amounting ₹ 30,000 realised in cash can only be used for bonus issue.

- (c) As per AS 2 'Valuation of Inventories', abnormal amount of waste material, labour or

other production costs are excluded from cost of inventories and such costs are recognized as expenses in the period in which they are incurred. In this case, normal waste is 375 Kg (5% of 7,500 kg) and abnormal waste is 75 Kg (450kg less 375kg). The cost of 375 Kg will be included in determining the cost of inventories (finished goods) at the year-end. The cost of abnormal waste amounting to ₹ 78,947.36 (75 Kg x ₹ 1,052.63) will be charged in the profit and loss statement. Thus cost per unit of finished product will be calculated as ₹ 1,052.63 (7,500 x 1,000/ 7,125).

- (d) The proposals will be evaluated and vendor will be selected considering the following criteria:
1. Quantum of services provided and whether the same matches with the requirements of the educational institution.
 2. Reputation and background of the vendor.
 3. Comparative costs of the various propositions.
 4. Organizational set up of the vendor particularly technical staffing to obtain services without inordinate delay.
 5. Assurance of quality, confidentiality and secrecy.
 6. Data storage and processing facilities.
- (e) According to AS 9, sales will be recognized only when following two conditions are satisfied:
- (i) The sale value is fixed and determinable.
 - (ii) Property of the goods is transferred to the customer.

Both these conditions are satisfied only on 27.3.2012 when sales are agreed upon at a price and goods are allocated for delivery purpose. The amount of net profit ₹ 11,000 (30,000 – 19,000) would be recognized in the books for the year ending 31st March, 2012.