

Test Series: February, 2012

MOCK TEST PAPER - 1

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) An Om limited company manufacturing fancy bedsheets had valued its closing stock of inventories of finished goods at the realisable value, inclusive of profit and the export cash incentives. Firm contracts had been received and goods were packed for export, but the ownership in these goods had not been transferred to the foreign buyers.

Comment on the valuation of stocks by the company.

- (b) An unquoted long term investment is carried in the books at a cost of ₹ 2 lakhs. The published accounts of the unlisted company received in May, 2011 showed that the company was incurring cash losses with declining market share and the long term investment may not fetch more than ₹ 20,000. How will you deal with this in preparing the financial statements of R Ltd. for the year ended 31st March, 2011?
- (c) During the year 2010-11, A Limited incurred the following expenses on machinery:
₹ 2.50 lacs as routine repairs and ₹ 75,000 on partial replacement of a part.
₹ 7 lacs on replacement of part of machinery which will improve the efficiency of the machine. Which amount should be capitalized as per AS 10?
- (d) Amar Co. Ltd. charged depreciation on its asset on SLM basis. For the year ended 31.3.2011 it changed to WDV basis. The impact of the change, when computed from the date of the asset coming to use, amounts to ₹ 20 lakhs being additional charge.

Decide how it must be disclosed in profit and loss account. Also, discuss when such changes in method of depreciation can be adopted by an enterprise as per AS 6.
(4 x 5 = 20 Marks)

2. The Balance Sheet of Sumit Ltd. as on 31st March, 2011 is as under:

Liabilities	₹	Assets	₹
Authorised and issued share capital		Goodwill	3,00,000

20,000 equity shares of ₹ 100 each	20,00,000	Plant and machinery	18,00,000
10,000 preference shares (7%) of ₹ 100 each	10,00,000	Stock	3,00,000
Sundry creditors	7,00,000	Debtors	7,50,000
Bank overdraft	3,00,000	Cash	1,50,000
		Profit and loss account	<u>7,00,000</u>
	<u>40,00,000</u>		<u>40,00,000</u>

Two years' preference dividends are in arrears. The company had bad time during the last two years and hopes for better business in future, earning profit and dividend distribution, provided the capital base is reduced.

An internal reconstruction scheme as follows was agreed by all concerned:

- (i) Creditors agreed to forego 50% of the claim.
- (ii) Preference shareholders withdrew arrear dividend claim. They also agreed to lower their capital claim by 20% by reducing nominal value in consideration of 9% dividend effective after reorganization in case equity shareholders' loss exceed 50% on the application of the scheme.
- (iii) Bank agreed to convert overdraft into term loan to the extent required for making current ratio equal to 2 : 1.
- (iv) Revalued figure for plant and machinery was accepted as ₹ 15,00,000.
- (v) Debtors to the extent of ₹ 4,00,000 were considered good.
- (vi) Equity shares shall be exchanged for the same number of equity shares at a revised denomination as required after the reorganization.

Show:

- (a) Total loss to be borne by the equity and preference shareholders for the reorganization;
- (b) Share of loss to the individual classes of shareholders;
- (c) New structure of share capital after reorganization;
- (d) Working capital of the reorganized Company; and
- (e) A proforma balance sheet after reorganization

(16 Marks)

3. (a) The following transactions by Mr. Mohan took place during the year ended 31st March, 2011:

1 st April	Purchased ₹12,00,000 8% bonds @ ₹80.5 cum-interest. Interest is payable on 1 st November and 1 st May.
12 th April	Purchased 1,00,000 equity shares of ₹10 each in X Ltd. for ₹40,00,000.
1 st May	Received half year's interest on 8% bonds.
15 th May	X Ltd. made a bonus issue of three equity shares for every two held. Mr. Malamaal sold 1,25,000 bonus shares @ ₹20 each.
1 st October	Sold ₹3,00,000 8% bonds @ ₹81 ex-interest.
1 st November	Received half year's bond interest.
1 st December	Received 18% dividend on equity shares in X Ltd.

Prepare the relevant investment accounts in the books of Mr. Mohan for the year ended 31st March, 2011.

- (b) Arrange and redraft the following Cash Flow Statement in proper order keeping in mind the requirements of AS-3:

		₹ (in lacs)	₹(in lacs)
	Net Profit		60,000
Add:	Sale of Investments		70,000
	Depreciation on Assets		11,000
	Issue of Preference Shares		9,000
	Loan raised		4,500
	Decrease in Stock		<u>12,000</u>
			1,66,500
Less:	Purchase of Fixed Assets	65,000	
	Decrease on Creditors	6,000	
	Increase in Debtors	8,000	
	Exchange gain	8,000	
	Profit on sale of investments	12,000	
	Redemption of Debenture	5,700	
	Dividend paid	1,400	
	Interest paid	<u>945</u>	<u>1,07,045</u>
			59,455
Add:	Opening cash and cash equivalent		<u>12,341</u>
	Closing cash and cash equivalent		71,796

(8 + 8 = 16 Marks)

4. M, N and O are partners of the firm MNO & Co., sharing profits and losses in the ratio of 5:3:2. Following is the Balance Sheet of the firm as at 31.3.2011:

Balance Sheet as at 31.3.2011

Liabilities	₹	Assets	₹
Partners' capital accounts:		Goodwill	1,00,000
M	4,50,000	Building	10,50,000
N	1,30,000	Machinery	6,50,000
O	1,70,000	Furniture	2,15,000
Investment fluctuation reserve	1,00,000	Investments (market value ₹75,000)	60,000
Contingency reserve	75,000	Stock	6,50,000
Long-term loan	15,00,000	Sundry debtors	6,95,000
Bank overdraft	2,20,000	Advertisement suspense	25,000
Sundry creditors	<u>8,00,000</u>		
	<u>34,45,000</u>		<u>34,45,000</u>

It was decided that N would retire from the partnership on 1.4.2011 and P would be admitted as a partner on the same date. Following adjustments are agreed amongst the partners for the retirement/admission:

- Goodwill is to be valued at ₹5,00,000, but the same will not appear as an asset in the books of the firm.
- Building and machinery are to be revalued at ₹10,00,000 and ₹5,20,000 respectively.
- Investments are to be taken over by N at the market value.
- Provision for doubtful debts to be maintained at 20% on sundry debtors.
- The capital of the reconstituted firm will be ₹10,00,000 to be contributed by the partners M, N and P in their new profit sharing ratio of 2 : 2 : 1.
- Surplus funds if any will be used to pay the bank overdraft.
- Amount due to retiring partner N will be transferred to his loan account.

Prepare:

- Revaluation Account;
- Capital Accounts of the partners; and
- Balance Sheet of the firm after reconstitution.

(16 Marks)

5. Following is the Receipts and Payments Account of Aman Club for the year ended 31st March, 2011:

Receipts	Amount (₹)	Payments	Amount (₹)
Opening balance:		Salaries	1,20,000
Cash	10,000	Creditors	15,20,000
Bank	3,850	Printing and stationery	70,000
Subscription received	2,02,750	Postage	40,000
Entrance donation	1,00,000	Telephone and fax	52,000
Interest received	58,000	Repairs and maintenance	48,000
Sale of fixed assets	8,000	Glass and table linen	12,000
Miscellaneous income	9,000	Crockery and cutlery	14,000
Receipts at coffee room	10,70,000	Garden upkeep	8,000
Wines and spirits	5,10,000	Membership fee	4,000
Swimming pool	80,000	Insurance	5,000
Tennis court	1,02,000	Electricity	28,000
		Closing balance:	
		Cash	8,000
		Bank	<u>2,24,600</u>
	<u>21,53,600</u>		<u>21,53,600</u>

Following additional information is provided to you:

- (i) Assets and liabilities as on 31.3.2011 were as follows:

	₹
Fixed assets	5,00,000
Stock	3,80,000
Investment in 12% Government securities	5,00,000
Outstanding subscription	12,000
Gratuity fund	1,50,000
Prepaid insurance	1,000
Sundry creditors	1,12,000
Subscription received in advance	15,000
Entrance donation received pending membership	1,00,000

- (ii) Subscription received in advance as on 31.3.2011 was ₹18,000.
- (iii) Outstanding subscription as on 31.3.2011 was ₹7,000.
- (iv) Outstanding expenses as on 31.3.2011 are:

Salaries	:	₹8,000
Electricity	:	₹15,000
- (v) 50% of the entrance donation was to be capitalized. There was no pending membership as on 31.3.2011.
- (vi) The cost of assets sold as on 1.4.2010 was ₹10,000.
- (vii) Depreciation was provided @ 10% p.a. on fixed assets on written down value basis.
- (viii) A sum of ₹20,000 received in October, 2010 as entrance donation from an applicant was to be refunded, as he has not fulfilled the requisite membership qualification. The refund was made on 3.6.2011.
- (ix) Purchases made during the year 2010-11 amounted to ₹15,00,000.
- (x) The value of closing stock as on 31.3.2011 was ₹2,10,000.
- (xi) The Club as a matter of policy charges off to Income and Expenditure account, all purchases made on account of crockery, cutlery, glass and linen in the year of purchase.

You are required to prepare:

- (i) Income and Expenditure account for the year ended 31st March, 2011.
 - (ii) Balance Sheet as on 31st March, 2011. (16 Marks)
6. (a) Rajat Ltd. has a Hire-purchase department. Goods are sold on hire-purchase at cost plus 60%.

From the following particulars draft Hire-purchase trading account and compute profit or loss for the year ended 31st March, 2011:

	₹
Goods with customers on 1.4.2010 (instalments not due)	3,20,000
Instalments due on 1.4.2010	20,000
Goods sold on hire-purchase during the year (i.e., from 1.4.2010 to 31.3.2011)	16,00,000
Cash received from customers	11,20,000
Goods re-possessed from customers valued at 40%	16,000
Unpaid instalments in respect of re-possessed goods	40,000
Goods with customers as on 31.3.2011 (at hire-purchase price)	7,20,000

- (b) On 2.6.2011 the stock of Mr. White was destroyed by fire. However, following particulars were furnished from the records saved:

	₹
Stock at cost on 1.4.2010	1,35,000
Stock at 90% of cost on 31.3.2011	1,62,000
Purchases for the year ended 31.3.2011	6,45,000
Sales for the year ended 31.3.2011	9,00,000
Purchases from 1.4.2011 to 2.6.2011	2,25,000
Sales from 1.4.2011 to 2.6.2011	4,80,000

Sales upto 2.6.2011 includes ₹75,000 being the goods not dispatched to the customers. The sales invoice price is ₹75,000.

Purchases upto 2.6.2011 includes a machinery acquired for ₹15,000.

Purchases upto 2.6.2011 does not include goods worth ₹30,000 received from suppliers, as invoice not received upto the date of fire. These goods have remained in the godown at the time of fire.

Value of stock salvaged from fire ₹22,500 and this has been handed over to the insurance company.

The insurance policy is for ₹1,20,000 and it is subject to average clause. Ascertain the amount of claim for loss of stock.
(8+8 = 16 Marks)

7. Answer any **four** out of five

- (a) A had the following bills receivable and bills payable against T. Calculate average due date when the payment can be made or received without any loss or gain of interest to either party.

Bills Receivable			Bills Payable		
Date of the Bill	Amount (₹)	Tenure in months	Date of bill	Amount (₹)	Tenure in months
1.6.11	9,000	3	29.5.11	6,000	2
5.6.11	7,500	3	3.6.11	9,000	3
9.6.11	10,000	1	10.6.11	10,000	2
12.6.11	8,000	2	13.6.11	7,000	2
20.6.11	12,000	3	27.6.11	11,000	1

Holiday intervening in the period 15th August, 2011, 16th August, 2011, and 6th September, 2011.

- (b) On 25th September, 2011, Planet Advertising Limited obtained advertisement rights for World Cup Hockey Tournament to be held in November/December, 2011 for ₹ 520 lakhs.

They furnish the following information:

- (1) The company obtained the advertisements for 70% of available time for ₹ 700 lakhs by 30th September, 2011.
- (2) For the balance time they got bookings in October, 2011 for ₹ 240 lakhs.
- (3) All the advertisers paid the full amount at the time of booking the advertisements.
- (4) 40% of the advertisements appeared before the public in November, 2011 and balance 60% appeared in the month of December, 2011.

You are required to calculate the amount of profit/loss to be recognized for the month November and December, 2011 as per Accounting Standard-9.

- (c) A large size multi department's hospital decided to outsource the accounting functions. Hospital invited proposals from vendors through open tender and received three proposals. How will you select the vendor?
- (d) Is any specific disclosure under AS 1 required for a company in liquidation?
- (e) A firm of contractors obtained a contract for construction of bridges across river Revathi. The following details are available in the records kept for the year ended 31st March, 2011.

	(₹ in lakhs)
Total Contract Price	1,000
Work Certified	500
Work not Certified	105
Estimated further Cost to Completion	495
Progress Payment Received	400
To be Received	140

The firm seeks your advice and assistance in the presentation of accounts keeping in view the requirements of AS 7 (Revised) issued by ICAI. (4 × 4 = 16 Marks)

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

1. (a) Accounting Standard 2 “Valuation of Inventories” states that inventories should be valued at lower of historical cost and net realisable value. AS 9 on “Revenue Recognition” states, “at certain stages in specific industries, such as when agricultural crops have been harvested or mineral ores have been extracted, performance may be substantially complete prior to the execution of the transaction generating revenue. In such cases, when sale is assured under forward contract or a government guarantee or when market exists and there is a negligible risk of failure to sell, the goods invoiced are often valued at net-realizable value.”

Bedsheets do not fall in the category of agricultural crops or mineral ores. Accordingly, taking into account the facts stated, the closing stock of finished goods (Fancy terry towel) should have been valued at lower of cost and net-realizable value and not at net realisable value. Further, export incentives are recorded only in the year the export sale takes place. Therefore, the policy adopted by the company for valuing its closing stock of inventories of finished goods is not correct.

- (b) As it is stated in the question that financial statements for the year ended 31st March, 2011 are under preparation, the views have been given on the basis that the financial statements are yet to be completed and approved by the Board of Directors.

Investments classified as long term investments should be carried in the financial statements at cost. However, provision for diminution shall be made to recognise a decline, other than temporary, in the value of the investments, such reduction being determined and made for each investment individually. Para 17 of AS 13 ‘Accounting for Investments’ states that indicators of the value of an investment are obtained by reference to its market value, the investee's assets and results and the expected cash flows from the investment. On these bases, the facts of the given case clearly suggest that the provision for diminution should be made to reduce the carrying amount of long term investment to ₹ 20,000 in the financial statements for the year ended 31st March, 2011.

- (c) As per para 12.1 of AS 10 “Accounting for Fixed Assets” expenditure that increases the future benefits from the existing assets, is included in the gross book value.

Hence, in the given case, repairs of ₹ 2.50 lacs and partial replacement of the part of the machinery should be charged to Profit & Loss Account. ₹ 7 lacs incurred on a part of the machinery, which will increase the efficiency, should be capitalized.

- (d) The company should disclose the change in method of depreciation adopted for the accounting year. The impact on depreciation charge due to change in method must be quantified and reported by the enterprise.

Following aspects may be noted in this regard as per AS 6 on 'Depreciation Accounting'.

- (a) The depreciation method selected should be applied consistently from period to period.
- (b) A change from one method of providing depreciation to another should be made only if the adoption of the new method is required by the statute or for compliance with an accounting standard if it is considered that the change would result in a more appropriate preparation or presentation of the financial statements of the enterprise.

2. (a) **Loss to be borne by Equity and Preference Shareholders**

	₹
Profit and loss account (debit balance)	7,00,000
Goodwill	3,00,000
Plant & Machinery	3,00,000
Debtors	3,50,000
Amount to be written off	16,50,000
Less: 50% of Creditors	(3,50,000)
Recorded loss borne by the share holders	13,00,000
Add: Arrears of preference dividend of 2 years forgone by the preference shareholders	<u>1,40,000</u>
Total sacrifice by the shareholders of Weak Ltd.	<u>14,40,000</u>

(b)

	₹	₹
Total recorded loss of ₹13,00,000		
Preference shareholders' share of loss = 20% of ₹ 10,00,000	2,00,000	
Add: Arrears of preference dividend	<u>1,40,000</u>	3,40,000
Equity shareholders' share of loss (₹13,00,000 – ₹ 2,00,000) being more than 51% of equity share capital		<u>11,00,000</u>
		<u>14,40,000</u>

(c) New structure of share capital after reorganisation

Equity shares:	₹
20,000 equity shares of ₹45 each, fully paid up (₹ 20,00,000 – ₹11,00,000)	9,00,000
Preference shares:	
10,000, 9% preference shares of ₹80 each, fully paid up (₹ 10,00,000 – ₹ 2,00,000)	<u>8,00,000</u>
	<u>17,00,000</u>

(d) Working capital of the reorganized company

Current Assets:	₹	₹
Stock		3,00,000
Debtors		4,00,000
Cash		<u>1,50,000</u>
		8,50,000
Less: Current liabilities:		
Creditors	3,50,000	
Bank overdraft **	<u>75,000</u>	<u>4,25,000</u>
Working capital		<u>4,25,000</u>

**(e) Balance Sheet of Sumit Ltd. (and reduced)
as on 31st March, 2011**

Liabilities	₹	Assets	₹
Authorised, issued and paid up share capital		Fixed Assets	
20,000 equity shares of ₹45 each	9,00,000	Plant and Machinery	15,00,000
10,000, 9% preference shares of ₹80 each	8,00,000	Current Assets	
Unsecured loan		Stock	3,00,000
Term loan with Bank	2,25,000	Debtors	4,00,000
Current liabilities		Cash	1,50,000
Bank overdraft	75,000		
Creditors	<u>3,50,000</u>		
	<u>23,50,000</u>		<u>23,50,000</u>

** Current ratio shall be 2 : 1, i.e. total current liabilities shall be 50% of ₹8,50,000 (i.e. ₹3,00,000 + 4,00,000 + 1,50,000) = ₹4,25,000. Therefore, Bank overdraft = ₹75,000 (₹4,25,000 less creditors ₹3,50,000).

3. (a)

In the books of Mr. Mohan
8% Bond Account

Date	Particulars	Nominal Value ₹	Income ₹	Cost ₹	Date	Particulars	Nominal Value ₹	Income ₹	Cost ₹
2010 April 1	To Bank A/c (W.N.1)	12,00,000	40,000	9,26,000	2010 May 1	By Bank A/c (W.N.2)	--	48,000	---
2011 Mar. 31	To Profit & Loss A/c : Int. income		84,000		Oct. 1	By Bank A/c (W.N.4)	3,00,000	10,000	2,43,000
	Profit on Sale			11,500	Nov. 1	By Bank A/c (W.N.5)	---	36,000	---
		<u>12,00,000</u>	<u>1,24,000</u>	<u>9,37,500</u>	Mar. 31	By Balance c/d (W.N.7 & 8)	<u>9,00,000</u>	<u>30,000</u>	<u>6,94,500</u>
							<u>12,00,000</u>	<u>1,24,000</u>	<u>9,37,500</u>

Equity Shares in X Ltd.

	Particulars	Nominal Value ₹	Income ₹	Cost ₹	Date	Particulars	Nominal Value ₹	Income ₹	Cost ₹
2010 April 12	To Bank A/c	10,00,000	-	40,00,000	2010 May 15	By Bank A/c	12,50,000	---	25,00,000
May 15	To Bonus Issue A/c (W.N.3)	15,00,000	---	---	Dec. 1	By Bank (Dividend) (W.N.6)	----	2,25,000	----
2011 Mar. 31	To Profit & Loss A/c: Dividend	---	2,25,000	----	2011 Mar. 31	By Balance c/d (W.N.9)	12,50,000	----	20,00,000
	Profit on Sale (W.N.10)	---	----	5,00,000					
		<u>25,00,000</u>	<u>2,25,000</u>	<u>45,00,000</u>			<u>25,00,000</u>	<u>2,25,000</u>	<u>45,00,000</u>

Working Notes:

1. Cum interest purchased cost of 8% Bond = $\frac{₹12,00,000}{100} \times 80.50 = ₹9,66,000$
 Less: Interest portion $\frac{₹12,00,000}{12} \times 8\% \times \frac{5}{12} = ₹40,000$
 Ex-interest cost ₹9,26,000
2. Half yearly interest on 8% bond as on 1st May, 2010
 = ₹12,00,000 x 8% x 6/12 = ₹48,000
3. Bonus issue of equity shares of X Ltd. = 1,00,000/2 x 3 x 10 = ₹15,00,000
4. Sales value = 3,00,000/100 x 81 = ₹2,43,000
5. Half yearly interest on 8% bond as on 1st November, 2010
 = (12,00,000 - 3,00,000) x 8% x 6/12 = ₹36,000
6. Dividend on equity shares of X Ltd.
 = (10,00,000 + 15,00,000 - 12,50,000) x 18% = ₹2,25,000
7. Accrued interest = 9,00,000 x 8% x 5/12 = 30,000
8. Closing balance of 8% bond 9,26,000/12,00,000 x 9,00,000 = 6,94,500
9. Closing balance of equity shares of X Ltd.
 [40,00,000/(10,00,000+15,00,000)] x 12,50,000 = ₹20,00,000
10. Profit on sale of equity shares of X Ltd.
 Sales value ₹25,00,000
 Less: Cost [40,00,000/(10,00,000+15,00,000)] x 12,50,000 ₹20,00,000
 ₹ 5,00,000

(b) Cash Flow Statement

<i>Cash flows from operating activities:</i>		(₹in lacs)
Net Profit		60,000
Less: Exchange gain		<u>(8,000)</u>
		52,000
Less: Profit on sale of investments		<u>(12,000)</u>
		40,000
Add: Depreciation on Assets		<u>11,000</u>
Change in current assets and current liabilities		51,000

Less: Increase in Debtors	(8,000)	
Add: Decrease in Stock	12,000	
Less: Decrease in creditors	<u>(6,000)</u>	<u>(2,000)</u>
Net cash generated from Operating activities (A)		49,000
<i>Cash flows from Investing activities:</i>		
Sale of Investments	70,000	
Less: Purchase of Fixed Assets	<u>(65,000)</u>	
Net cash generated from Investing activities (B)		5,000
<i>Cash flows from Financing activities:</i>		
Issue of preference shares	9,000	
Add: Loan raised	<u>4,500</u>	
	13,500	
Less: Redemption of Debentures	<u>(5,700)</u>	
	7,800	
Less: Interest paid	<u>(945)</u>	
	6,855	
Less: Dividend paid	<u>(1,400)</u>	
Net cash generated from Financing activities (C)		<u>5,455</u>
Net increase in Cash & Cash Equivalents		59,455
Add: Opening cash and cash equivalents		<u>12,341</u>
Closing cash and cash equivalents		<u>71,796</u>

4. (i) **Revaluation Account**

	₹		₹
To Building	50,000	By Investments	15,000
To Machinery	1,30,000	By Partners' capital A/cs (Loss on revaluation)	
To Provision for doubtful debts	1,39,000	M 1,52,000	
		N 91,200	
		O <u>60,800</u>	<u>3,04,000</u>
	<u>3,19,000</u>		<u>3,19,000</u>

(ii) **Partners' Capital Accounts**

	M	N	O	P		M	N	O	P
	₹	₹	₹	₹		₹	₹	₹	₹
To Revaluation A/c	1,52,000	91,200	60,800	-	By Balance b/d	4,50,000	1,30,000	1,70,000	-
To Goodwill (W.N.2)	50,000	30,000	20,000	-	By Contingency Reserve	37,500	22,500	15,000	-
To A and B (W.N.3)	-	-	1,00,000	1,00,000	By Investment fluctuation Reserve	50,000	30,000	20,000	-
To Investments	-	75,000	-	-					
To Advertisement suspense	12,500	7,500	5,000	-	By O and P (W.N.3)	50,000	1,50,000	-	-
To B's Loan A/c (Bal. fig.)	-	1,28,800	-	-	By Bank (Bal.fig.)	27,000	-	3,80,800	3,00,000
To Balance c/d (W.N.4)	<u>4,00,000</u>	<u>-</u>	<u>4,00,000</u>	<u>2,00,000</u>					
	<u>6,14,500</u>	<u>3,32,500</u>	<u>5,85,800</u>	<u>3,00,000</u>		<u>6,14,500</u>	<u>3,32,500</u>	<u>5,85,800</u>	<u>3,00,000</u>

(iii) **Balance Sheet as at 01.04.2011**
(After retirement of N and admission of P)

Liabilities	₹	Assets		₹
Partners' capital accounts (W.N.4)		Building		10,00,000
M	4,00,000	Machinery		5,20,000
N	4,00,000	Furniture		2,15,000
P	2,00,000	Stock		6,50,000
Long term loan	15,00,000	Debtors	6,95,000	
O's loan	1,28,800	Less: Provision for doubtful debts	<u>1,39,000</u>	5,56,000
Sundry creditors	<u>8,00,000</u>	Cash at bank (W.N.1)		<u>4,87,800</u>
	<u>34,28,800</u>			<u>34,28,800</u>

Working Notes:

1. Bank Account

	₹		₹
To M's capital A/c	27,000	By Balance b/d (Overdraft)	2,20,000
To O's capital A/c	3,80,800	By Balance c/d	

To P's capital A/c	<u>3,00,000</u>	(Bal. fig.)	4,87,800
	<u>7,07,800</u>		<u>7,07,800</u>

2. Goodwill, already shown in the Balance Sheet of ₹1,00,000, is firstly written off and then an adjusting entry is passed for revalued goodwill of ₹5,00,000 in sacrificing and gaining ratio of partners. This treatment is given based on the para 36 of AS 10, which states that goodwill should be recorded in the books only when some consideration in money or money's worth has been paid for it.

3. **Calculation of sacrificing and gaining ratio**

Partners	New share	Old share	Share Sacrificed	Share Gained
M	$\frac{2}{5}$	$\frac{5}{10}$	$\frac{2}{5} - \frac{5}{10} =$	$\frac{1}{10}$
N		$\frac{3}{10}$		$\frac{3}{10}$
O	$\frac{2}{5}$	$\frac{2}{10}$		$\frac{2}{5} - \frac{2}{10}$
P	$\frac{1}{5}$			$\frac{1}{5}$

Adjusting Entry

		₹	₹
O's Capital A/c	Dr.	1,00,000	
P's Capital A/c	Dr.	1,00,000	
To M's Capital A/c			50,000
To N's Capital A/c			1,50,000

4. **Capitals of M, O and P as per new ratio**

		₹
Total Capital of the firm after admission		<u>10,00,000</u>
M's share =	$10,00,000 \times \frac{2}{5}$	4,00,000
O's share =	$10,00,000 \times \frac{2}{5}$	4,00,000
P's share =	$10,00,000 \times \frac{1}{5}$	2,00,000

**5. Income and Expenditure Account of Aman club
for the year ended 31st March, 2011**

<i>Expenditure</i>	<i>Amount (₹)</i>	<i>Income</i>	<i>Amount (₹)</i>
To Salaries (W.N.8)	1,28,000	By Subscriptions (W.N.2)	1,94,750
To Printing and stationery	70,000	By Entrance donation (W.N.3)	90,000
To Postage	40,000	By Interest (W.N.4)	60,000
To Telephone & fax	52,000	By Miscellaneous income	9,000
To Repairs and maintenance	48,000	By Profit from operations (W.N.6)	92,000
To Glass and table linen	12,000	By Excess of expenditure over income transferred to capital fund (deficit)	30,250
To Crockery and cutlery	14,000		
To Garden upkeep	8,000		
To Membership fee	4,000		
To Insurance (W.N.5)	6,000		
To Electricity charges (W.N.8)	43,000		
To Loss on sale of assets (10,000 – 8,000)	2,000		
To Depreciation (W.N.9)	<u>49,000</u>		
	<u>4,76,000</u>		<u>4,76,000</u>

Balance Sheet of Nanoo Club as on 31st March, 2011

<i>Liabilities</i>	<i>Amount (₹)</i>	<i>Assets</i>	<i>Amount (₹)</i>
Capital fund(W.N.10)	10,89,600	Fixed assets (W.N.9)	4,41,000
Gratuity fund	1,50,000	Stock	2,10,000
Sundry creditors (W.N.7)	92,000	Investments in 12% Government securities	5,00,000
Subscription received in advance	18,000	Subscription outstanding	7,000
Entrance donation refundable	20,000	Interest accrued (W.N.4)	2,000
Outstanding salary	8,000	Bank	2,24,600
Outstanding electricity charges	15,000	Cash	<u>8,000</u>
	<u>13,92,600</u>		<u>13,92,600</u>

Working Notes:

(1)

Opening Balance Sheet**as on 1st April, 2010**

<i>Liabilities</i>	<i>Amount (₹)</i>	<i>Assets</i>	<i>Amount (₹)</i>
Capital fund (Bal.Fig.)	10,29,850	Fixed assets	5,00,000
Sundry creditors	1,12,000	Stock	3,80,000
Subscription received in advance	15,000	Investment in 12% Government securities	5,00,000
Entrance donation received in advance (pending membership)	1,00,000	Subscription outstanding	12,000
Gratuity fund	1,50,000	Prepaid insurance	1,000
		Cash	10,000
		Bank	<u>3,850</u>
	<u>14,06,850</u>		<u>14,06,850</u>

(2) Subscription	₹
Subscription received during the year	2,02,750
Add: Outstanding subscription on 31.3.2011	7,000
Add: Received in advance as on 1.4.2010	<u>15,000</u>
	2,24,750
Less: Outstanding subscription as on 1.4.2010	(12,000)
Less: Received in advance as on 31.3.2011	<u>(18,000)</u>
	<u>1,94,750</u>
(3) Entrance Donation	₹
Entrance Donation received during the year	1,00,000
Add: Received in Advance as on 1.4.2010	<u>1,00,000</u>
	2,00,000
Less: Refundable to Ineligible Member	<u>20,000</u>
	1,80,000
Less: 50% Capitalized	<u>90,000</u>
	<u>90,000</u>

(4)	Interest received		₹
	Interest on ₹ 5,00,000 @ 12% p.a.		60,000
	Less: Interest received during the year		<u>58,000</u>
	Interest accrued as on 31.3.2011		<u>2,000</u>
	Interest credited to Income and Expenditure A/c		<u>60,000</u>
(5)	Insurance		₹
	Insurance paid during the year		5,000
	Add: Prepaid Insurance as on 1.4.2010		<u>1,000</u>
			<u>6,000</u>
(6)	Profit from Operations		₹
	<u>Cost of Goods sold</u>		
	Opening Stock as on 1.4.2010		3,80,000
	Add: Purchases		<u>15,00,000</u>
			18,80,000
	Less: Closing Stock		<u>2,10,000</u>
	Cost of Goods Sold (A)		<u>16,70,000</u>
	<u>Receipts from operations</u>		
	Receipts from Coffee Room		10,70,000
	Receipts from Wines & Sprits		5,10,000
	Receipts from Swimming Pool		80,000
	Receipts from Tennis Court		<u>1,02,000</u>
	Total of Receipts (B)		<u>17,62,000</u>
	Profit from Operations (B-A)		<u>92,000</u>
(7)	Sundry Creditors		₹
	Opening Balance as on 1.4.2010		1,12,000
	Add: Purchases made during the year		<u>15,00,000</u>
			16,12,000
	Less: Payment made during the year		<u>15,20,000</u>
	Closing Balance as on 31.3.2011		<u>92,000</u>
(8)	(a) Salary		₹
	Salary paid as on 31.3.2011	1,20,000	
	Add: Outstanding Salary as on 31.3.2011	<u>8,000</u>	<u>1,28,000</u>

(b)	Electricity charges	28,000	
Add:	Outstanding Electricity charges as on 31.3.2011	<u>15,000</u>	<u>43,000</u>
(9)	Fixed Assets		
	Fixed Assets as per Trial Balance		5,00,000
	Less: W.D.V. of Assets sold		<u>10,000</u>
			4,90,000
	Less: Depreciation @ 10% on ₹ 4,90,000		<u>49,000</u>
	Fixed Assets as on 31.3.2011		<u>4,41,000</u>
(10)	Capital fund		₹
	Capital fund as on 31.3.2010		10,29,850
	Add: Entrance donation capitalized		<u>90,000</u>
			11,19,850
	Less: Deficit		<u>30,250</u>
			<u>10,89,600</u>

6. (a)

**In the books of Rajat Ltd.
Hire Purchase Trading Account
for the year ended on 31st March, 2011**

		₹			₹
To	Hire Purchase Stock	3,20,000	By	Hire Purchase Stock Reserve (W.N.1)	1,20,000
To	Instalments due	20,000	By	Bank A/c (Cash received)	11,20,000
To	Goods sold on Hire Purchase	16,00,000	By	Goods Repossessed A/c	16,000
To	Hire Purchase Stock Reserve (W.N.3)	2,70,000	By	Goods sold on hire purchase (loading) (W.N.2)	6,00,000
To	Profit and Loss A/c (balancing figure)	4,26,000	By	Hire purchase stock	7,20,000
		<u>26,36,000</u>	By	Instalments due (W.N.4)	<u>60,000</u>
					<u>26,36,000</u>

Working Notes:

1. Opening H.P. Stock reserve	$3,20,000 \times \frac{60}{160}$	₹ 1,20,000
2. Loading on goods sold on H.P.	$16,00,000 \times \frac{60}{160}$	6,00,000
3. Closing H.P. Stock reserve	$7,20,000 \times \frac{60}{160}$	2,70,000

4. Calculation of Instalments due at the end of the year

Opening H.P. Stock + Opening Instalments due + H.P. Sales during the year (i.e. 3,20,000 + 20,000 + 16,00,000) 19,40,000

Less: Cash received from customers	11,20,000	
Instalments unpaid for repossessed goods	40,000	
Closing balance of H.P. Stock	<u>7,20,000</u>	<u>18,80,000</u>
Closing Instalments Due		<u>60,000</u>

(b)

In the books of Mr. White
Trading Account for the year ended 31.3.2011

		₹			₹
To	Opening Stock	1,35,000	By	Sales	9,00,000
To	Purchases	6,45,000	By	Closing Stock at cost	1,80,000
To	Gross Profit	3,00,000			
		<u>10,80,000</u>			<u>10,80,000</u>
Memorandum Trading A/c for the period from 1.4.2011 to 02.06.2011					
To	Opening Stock at cost	1,80,000	By	Sales	4,80,000
To	Purchases	2,25,000		Less: Goods not dispatched	<u>75,000</u>
	Add: Goods received but invoice not received	<u>30,000</u>	By	Closing stock (Balancing)	1,50,000

	2,55,000		figure)	
	Less: Machinery <u>15,000</u>	2,40,000		
To	Gross Profit (Refer working note) <u>1,35,000</u>			
		<u>5,55,000</u>		<u>5,55,000</u>

Calculation of Insurance Claim

Claim subject to average clause = Actual loss of stock x Amount of Policy / Value of stock on the date of fire

$$= 1,50,000 * \frac{4,20,000}{1,50,000} = ₹ 1,20,000$$

Working Note:

$$\text{G.P. ratio} = \frac{3,00,000}{9,00,000} \times 100 = 33 \frac{1}{3} \%$$

$$\text{Amount of Gross Profit} = ₹ 4,05,000 \times 33 \frac{1}{3} \% = ₹ 1,35,000.$$

7. (a) Calculation of Average Due Date (taking base date as 12th July, 2011)

Date	Due date including days of grace	Amount (₹)	No. of Days from July 12	Products (₹)	Remarks
1.6.11	4.9.11	9,000	54	4,86,000	Bills Receivable
5.6.11	8.9.11	7,500	58	4,35,000	
9.6.11	12.7.11	10,000	0	0	
12.6.11	14.8.11	8,000	33	2,64,000	
20.6.11	23.9.11	<u>12,000</u>	73	<u>8,76,000</u>	
		<u>46,500</u>		<u>20,61,000</u>	
29.5.11	1.8.11	6,000	20	1,20,000	Bills Payable
3.6.11	5.9.11	9,000	55	4,95,000	
10.6.11	13.8.11	10,000	32	3,20,000	
13.6.11	14.8.11	7,000	33	2,31,000	
27.6.11	30.7.11	<u>11,000</u>	18	<u>1,98,000</u>	
		<u>43,000</u>		<u>13,64,000</u>	

* Salvaged stock amounting Rs.22,500 handed over to the insurance company is also a loss to Mr. White.

Difference of Products	=	₹20,61,000 – ₹13,64,000 = ₹6,97,000
Difference of Amount	=	₹46,500 – ₹43,000 = ₹3,500
Average Due Date	=	Base Date + $\frac{\text{Difference of Products}}{\text{Difference of Amount}}$
	=	July 12 + $\frac{6,97,000}{3,500}$
	=	July 12 + 199.14 or 199 days
	=	27 th January, 2012

Note:

- (i) B/R of 12.6.11 Due date changed due to holidays
- (ii) B/P of 3.6.11 Due date changed due to holidays
- (iii) B/P of 13.6.11 Due date changed due to holidays

- (b) As per para 12 of AS 9 'Revenue Recognition', in a transaction involving the rendering of services, performance should be measured either under the completed service contract method or under the proportionate completion method, whichever relates the revenue to the work accomplished. Further, appendix to AS 9 states that revenue from advertising should be recognized when the service is completed. The service as regards advertisement is deemed to be completed when the related advertisement appears before the public.

In the given problem, 40% of the advertisement appeared before the public in November, 2011 and balance 60% in December, 2011.

Total profit will be computed as follows:

	₹ in lakhs
Advertisement for 70% of available time obtained by 30 th September, 2011	700
Advertisement for 30% of available time obtained by October, 2011	<u>240</u>
Total	940
Less: Cost of advertisement rights	<u>(520)</u>
Profit	<u>420</u>

The profit amounting ₹ 420 lakhs should be apportioned in the ratio of 40:60 for the months of November and December, 2011. Thus, the company should recognise ₹ 168 lakhs (i.e. ₹ 420 lakhs x 40%) in November, 11 and rest ₹ 252 lakhs (i.e. ₹ 420 lakhs x 60%) in December, 2009

(c) 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 hospital.
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.

(d) For a company under liquidation, the fundamental accounting assumption of "going concern" is apparently not valid. The assets and liabilities would stand appropriately adjusted to reflect the realizable value, by way of carrying amounts. This information will be required to be disclosed by the company under AS 1 on Disclosure of Accounting Policies.

(e) (i) Amount of foreseeable loss (₹ in lakhs)

Total cost of construction (500 + 105 + 495)	1,100
Less: Total contract price	<u>1,000</u>
Total foreseeable loss to be recognized as expense	<u>100</u>

According to para 35 of AS 7 (Revised 2002), when it is probable that total contract costs will exceed total contract revenue, the expected loss should be recognized as an expense immediately.

	(₹ in lakhs)
(ii) Contract work-in-progress i.e. cost incurred to date are ₹605 lakhs	
Work certified	500
Work not certified	<u>105</u>
	<u>605</u>
This is 55% (605/1,100 × 100) of total costs of construction.	

(iii) Proportion of total contract value recognised as revenue as per para 21 of AS 7 (Revised).

$$55\% \text{ of ₹1,000 lakhs} = ₹550 \text{ lakhs}$$

(iv) Amount due from/to customers = Contract costs + Recognised profits – Recognised losses – (Progress payments received + Progress payments to be received)

$$= [605 + \text{Nil} - 100 - (400 + 140)] \text{ ₹in lakhs}$$

$$= [605 - 100 - 540] \text{ ₹in lakhs}$$

Amount due to customers = ₹35 lakhs

The amount of ₹35 lakhs will be shown in the balance sheet as liability.

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:

- (i) Pass necessary journal entries on admission of partners.
 - (ii) Prepare the Profit and Loss Account of the polyclinic for the year ended 31st March, 2012.
 - (iii) 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:

- Bills receivable drawn during the year amount to ₹ 20,000 and Bills payable accepted ₹ 16,000.
- 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.
- 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%.
- Mr. Incomplete has been maintaining a steady gross profit rate of 30% on turnover.
- 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.
- 20% of total sales and total purchases are to be treated as for cash.
- 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)

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>-</u>	<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

NM Ltd.

or ₹ 3.33 crores

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		
		<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 year	<u>(25,840)</u>	14,160		3,60,000	
			Less: Provision for depreciation	<u>(36,000)</u>	3,24,000
Sundry creditors		1,12,000	Furniture	60,000	
Bills payable		16,000			
Outstanding salary		10,000	Less: Sold during the year	<u>(20,000)</u>	
				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 To Share Capital A/c (Being the final call of ₹ 2.50 each on 80,000 equity shares made)	Dr. 2,00,000	2,00,000
(ii)	Bank A/c To Share Final Call A/c (Being the amount due on final call received)	Dr. 2,00,000	2,00,000
(iii)	General Reserves A/c Securities Premium A/c To Bonus to Share holders A/c (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)	Dr. 3,00,000 Dr. 1,00,000	4,00,000
(iv)	Bonus to Shareholders A/c To Equity Share Capital A/c (Being the issuance of 40,000 fully paid up shares of ₹ 10 each by way of bonus)	Dr. 4,00,000	4,00,000

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.