

C.A. IPCC
First Study Exam
Subject: Accounting

Instructions :

- (i) Attempt any four questions from the remaining five questions and Question no.6 is compulsory.
- (ii) Paper Code : ACCAA
- (iii) Date of Examination : 11-02-2012

Answer 1. Trading and Profit and Loss Account For the year ended on 31st March, 2006

Particulars		Amount Rs.			Amount Rs.
To Opening Stock		16,000	By Sales:		
To Purchases :			Cash (W.N.1)	6,500	
Cash	2,000		Credit	1,43,500	
Credit (W.N.3)	1,17,500		By Closing Stock	1,50,000	
	1,19,500		Less : Returns	3,000	1,47,000
Less : Returns	1,000	1,18,500	By Stock		22,500
To Gross Profit c/d		35,000			
		1,69,500			1,69,500
To Expenses	20,000		By Gross profit b/d		35,000
Add : O/s at the end	500		By Discount received		1,500
	20,500				
Less : O/s at the beginning	1,000	19,500			
To Bad Debts		1,000			
To Depreciation		2,000			
To Net Profit		14,000			
Total		36,500	Total		36,500

Balance Sheet As on 31st March, 2006

Liabilities	Rs.	Rs.	Assets	Rs.	Rs.
Capital (w.n.5)	48,500		Fixed Assets	23,000	
Add : Additional Capital	15,000		Add : Purchases during the year	1,000	
Add : Net Profit	14,000		Less : Depreciation	2,000	22,000
Less : Drawings	6,500	71,000	Stock		22,500
Creditors		25,000	Cash		2,500
Outstanding Expenses		500	Bank		13,500
			Debtors		36,000
		96,500			96,500

Working Notes:

1 Cash Account

Particulars	Amount Rs.	Particulars	Amount Rs.
To Balance b/d	4,500	By Purchases	2,000
To Sales (Bal. Fig.)	6,500	By Bank (Contra)	10,000

To Debtors	5,000	By Expenses	20,000
To Bank (Contra)	18,500	By Balance c/d	2,500
	34,500		34,500

2 Bank Account

Particulars	Amount Rs.	Particulars	Amount Rs.
To Balance b/d (Bal. Fig.)	9,500	By Fixed Assets	1,000
To Capital	15,000	By Drawings	6,500
To Cash (Contra)	10,000	By Cash (Contra)	18,500
To Debtors	1,25,000	By Creditors	1,20,000
		By Balance c/d	13,500
	1,59,500		1,59,500

3 Total Creditors Account

Particulars	Amount Rs.	Particulars	Amount Rs.
To Bank	1,20,000	By Balance b/d	30,000
To Returns	1,000	By Purchases (Bal. Fig.)	1,17,500
To Discount received	1,500		
To Balance c/d	25,000		
	1,47,500		1,47,500

4 Total Debtors Account

Particulars	Amount Rs.	Particulars	Amount Rs.
To Balance b/d (Bal. Fig)	26,500	To Cash	5,000
To Sales	1,43,500	By Bank	1,25,000
		By Bad Debts	1,000
		By Returns	3,000
		By Balance c/d	36,000
	1,70,000		1,70,000

5 Opening Balance Sheet as on 31.03.2005

Liabilities	Amount Rs.	Assets	Amount Rs.
Creditors	30,000	Fixed Assets	23,000
O/s Expenses	1,000	Stock	16,000
Capital (Bal. Fig.)	48,500	Cash	4,500
		Bank (W.N.2)	9,500
		Debtors (W.N.4)	26,500
	79,500		79,500

(20 Marks)

Answer 2.

Notes

- Statement of affairs is a statement which gives details of realizable values of the assets and liabilities paid against it considering the liquidation of the company.
- Against every assets there are two values given. However, they represent book value and realizable value.

- From total of second column (2875000) liabilities to be paid are deducted which means that second column gives realizable value of assets.
- Deficiency means short in cash balance as regards payment of all liabilities.
- Deficiency balance is not equal to or does not mean profit or loss balance.

Journal Entries: -

1. Equity share final call A/c dr.	3,00,000	
To Equity share cap A/c		3,00,000
2. Cash / Bank A/c dr.	3,00,000	
To Equity share final call A/c		3,00,000
3. Equity Share Cap. A/c [Rs.10] dr.	8,60,000	
To Equity share Cap. A/c [Re. 1]	86,000	
To Capital Reduction A/c		7,74,000
4. First Mortgage debenture A/c dr.	7,50,000	
Second Mortgage debenture A/c	12,50,000	
Sundry creditors A/c dr.	1,50,000	
Equity share cap. A/c dr.	1,40,000	
To X's A/c		22,90,000
5. X's A/c dr.	22,90,000	
To 10% Mortgage debenture A/c	18,00,000	
To cash Bank A/c	89,000	
To Capital reduction A/c		4,01,000
6. First Mortgage debenture A/c dr.	5,00,000	
Second Mor. Deb A/c dr.	7,50,000	
Sundry creditors A/c dr.	1,00,000	
To Y's A/c		13,50,000
7. Cash & Bank A/cdr	75,000	
To Y's A/c		75,000
8. Y's A/c dr	14,25,000	
To 10% Mortgage debenture A/c		10,00,000
To capital reduction A/c		4,25,000
9. Creditors A/c dr	1,25,000	
To Equity Share Capital A/c		1,00,000
To capital reduction A/c		25,000

Explanations: -

Total credit now appearing in capacity reduction A/c is 16,25,000. This amount is to be used for (normally) writing off past losses, fictitious assets and if possible to adjust agent revaluation of tangible assets.

Therefore we try to work out various amounts (hidden transactions).

In the example P & L debit balance is not mentioned. However, book value of assets and all liabilities are given and therefore we prepare following balance sheet by way of a working note to determine balance in profit & Loss A/c (debit or may be credit)

Working note: - Forming part of answer

Balance sheet @ book values

Liabilities	Amt.	Assets	Amt.
Equity share capital	7,00,000	Land	8,00,000
		Plant	12,00,000
		Stock	8,00,000
		Debtors	9,50,000
7% Debentures	12,50,000		
8% Debentures	20,00,000		
Creditors	4,50,000		
		Cash	1,50,000
		P & L A/c	5,00,000
		[Balancing amt.]	
Total	44,00,000	Total	44,00,000

Even after writing off past losses of Rs. 5,00,000/- there will be a credit balance of Rs. 11,25,000 in credit balance in capital reduction A/c it is now possible to carry out revaluation of tangible assets and to adjust resultant increase or decrease in capital reduction account. This will cleanse the B/S.

10. Land & Building A/c dr.	2,00,000	
To capital Reduction		2,00,000
11. Cap Reductions A/c dr	18,25,000	
To P & L A/c		5,00,000
To plant & Machinery		5,00,000
To stock in trade		2,50,000
To debtors		4,75,000
To capital reserve A/c		1,00,000

Capital Reduction A/c

Particulars	Rs.	Particulars	Rs
P & L A/c	5,00,000	Eq. share cap A/c	7,74,000
Plant & Machinery	5,00,000	X's A/c	4,01,000
Stock in trade	2,50,000	Y's A/c	4,25,000
Debtors	4,75,000	Creditors A/c	25,000
Capital reserve A/c [balancing Amt.]	1,00,000	Land & Building	2,00,000
Total	18,25,000	Total	18,25,000

Balance sheet as on _____

Liabilities	Rs	Assets	Rs
Subscribed & Paid up Equity shares	1,86,000	Land	10,00,000

of Re. 1 Each			
		Plant	7,00,000
		Stock	5,50,000
		Debtors	4,75,000
10% mortgage debenture	18,00,000		
10% mortgage debenture	10,00,000		
		Cash	4,36,000
Capital Reserve	1,00,000		
Creditors	75,000		
Total	31,61,000	Total	31,61,000

Rule : The Balance in capital Reduction A/c credit (after giving all transaction effect) is transferred to Capital Reserve A/c.

(20 Marks)

Answer 3. Explanations:-

1. Balance sheet of Gupta & Singh as on 31/3/1985 is given.
2. Business is continued for 3 months and then Raman takes it over.
3. There for 3 months profit belongs to Gupta & Singh it must be found out
4. Balance sheet as on 31/03/1986 can be easily prepared on the basis of following the relevant information given in the example
 - i. The book value of assets taken over as on
 - ii. The book value of assets and liabilities not taken over same

Working Note :

1. (To find out profit or loss for 3 months)

Balance sheet as on 31/3/1986

Liabilities	Rs	Assets	Rs
Capital		Furniture	3000
Gupta 3000		Investments	5000
Singh 2000	5000	Insurance policy	2000
Bank loan	18000	Stock	46000
Creditors	10,000	Debtors	35000
Profit (Balancing amount)	13000		
	91000		91000

2. Calculation of good will / capital reserve

1. Purchase consideration agreed and paid = 80,000
2. Net Assets taken over

Debtors	35000	
Furniture	3000	
Stock	40000	
	84000	
Creditors	<u>10000</u>	(74000)
Goodwill		<u>6000</u>

Trading account

Dr.	Rs	Cr.	Rs
Particulars		Particulars	
To opening stock	40,000	By sales	4,00,000
To purchases	3,20,000	By closing stock	30,000

To G.P.	90,000		
	4,50,000		4,50,000

Profit & Loss A/c

Dr.		Cr.	
Particulars	Rs	Particulars	Rs
To expenses	12000	By G.P.	90,000
To business Purchase	13000		
(Profit for 3months)			
To Net Profit	65000		
	90,000		90,000

Balance sheet of Raman as on 31/12/1986

Liabilities	Rs	Assets	Rs
Capital :		Furniture	3000
Raman	30,000	Debtors	48000
Profit	65,000	Bank	3000
Creditors	15,000	Stock	50,000
		Goodwill	6,000
	1,10,000		1,10,000

Business purchase

Dr.		Cr.	
Particulars	Rs	Particulars	Rs
To balance	80,000	Bu bank loan	18000
To investment	5000	By Gupta's capital	30000
To insurance policy	2000	By Singh's capital	20000
		By goodwill	6000
		By profit & Loss	13000
	87,000		87,000

(20 Marks)

Answer4 a.

WORKING NOTE :1

Memorandum trading A/c (1/1/07 to 31/7/07)

Particulars	Rs	Rs	Particulars	Rs	Rs
To opening stock	64660	2800	By sales	53800	1200
To purchase (4820 – 1900)	2920	-	By P & L A/c (sale)	-	1600 (i.e. 2800 is said in 1200)
G.P. %(20% on sales)	10760	X	By stock with consignee	3200	
			By stock with customer (at c.p)	1800	
			By closing stock	19900	
Total	78340	2800	Total	78340	2800

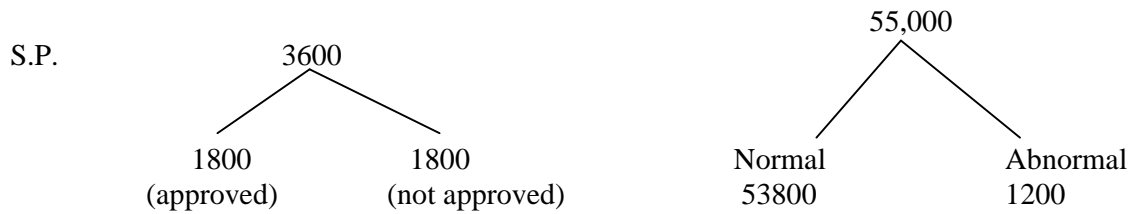
Working note 2 :

Sale

56800

(-) goods not approved

(1800)



- (1) Sale deduct at (S.P.)
(2) Stock with customer (C.P.)

G.P.% 2004	=	$\frac{20000}{80000 + 20000}$	x	100	=	20%
2005	=	$\frac{27000}{123000 + 27000}$	x	100	=	18%
2006	=	$\frac{39600}{140400 + 39600}$	x	100	=	22%
G.P.	=	$\frac{20+18+22}{3}$	=	20%		

Answer b.

Profit and Loss Account for 9 months ended on 30th September, 2009

Particulars	W.N.	Total (Rs.)	Pre- incorpor- ation 1.1.2009 to 30.4.2009	Post- incorpor- ation 1.5.2009 to 30.9.2009	Particulars	W.N.	Total Rs.	Pre- incorpor- ation 1.1.2009 to 30.4.2009	Post- incorpor- ation 1.5.2009 to 30.9.2009
To General expenses	2	14,220	6,320	7,900	By Gross profit	1	56,000	16,000	40,000
To Director's fees	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	—	—	<u>24,650</u>	—	—	—
	<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 Rs.100. Then the average monthly sales of next five months will be Rs.200.

Total sales of first four months = Rs.100 X 4 = Rs.400 and that of next five months = Rs.200 X 5 = Rs.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:

Pre – (Rs 56,000 / 7) X 2 = Rs 16,000 ; Post – (Rs 56,000 / 7) X 5 = Rs 40,000

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

Pre – (Rs 14,220 / 9) X 4 = Rs 6,320 ; Post – (Rs 14,220 / 9) X 5 = Rs 7,900

(3) Directors' fees payable @ Rs.1,000 per month. It is to be found in company only. So Rs.5,000 (5 × Rs.1,000) must naturally be shown in post-period incorporation period.

(4) Formation expenses though incurred in point of time, before the company was incorporated, are charge against the post incorporation profit.

(1) Rent for first four months = Rs.100 × 4 = Rs.400. For next five months = (Rs.100 × 2) + (Rs.250 × 3) = Rs.950.

(6) Salary to manager is related to pre-incorporation period only. Salary to be charged = Rs.500 × 4 = Rs.2,000.

(12+8=20 Marks)

Answer 5(a).

Calculation of Average Due date [Base Date : 22nd August]

A Date of Maturity	B Amount	C No. of days from base date	D = B X C Product
4 th September	1,200	13	15,600
22 nd August	1,600	0	0
13 th October	2,000	52	1,04,000
30 th October	1,500	69	1,03,500
10 th September	1,800	19	34,200
18 th October	<u>2,400</u>	57	<u>1,36,800</u>
	10,500		3,94,100

Average Due date = 22nd August + $\frac{\text{Total of Products}}{\text{Total of Amounts}}$ days

= 22nd August + $\frac{3,94,100}{10,500}$ days

= 22nd August + 38 days = 29th September

Answer 5(b).

Y in Account Current with X as at 30.04.2009

Date Due Date	Particulars	Amount	Days	Product	Date Due Date	Particulars	Amount	Days	Product
7.4.2009 to 10.6.2009	To Bills Payable A/c	5,000	-41	-2,05,000	1.4.2009 to 1.4.2009	By Balance b/d	10,000	30	3,00,000
10.4.2009 10.5.2009	To Sales A/c	15,000	-10	-1,50,000	12.4.2009 to 15.5.2009	By Bank A/c	7,500	-15	-1,12,500
20.4.2009 to 15.5.2009	To Purchase Return A/c	1,000	-15	-15,000	15.4.2009 to 15.5.2009	By Purchases A/c	6,000	-15	-90,000
20.4.2009 to 20.4.2009	To Bills Receivable A/c	5,000	10	50,000	30.4.2009	By Interest A/c*	205.90		-
30.4.2009 to 30.4.2009	To Difference of Product	-		4,17,500	30.4.2009	By Balance c/d	2,294.10		-
		<u>26,000</u>		<u>97,500</u>			<u>26,000</u>		<u>97,500</u>

*4,17,500 X 18/100 X 1/365 = Rs. 205.90

Note that no entry is required for transaction of April 10, 2009.

(10+10=20 Marks)

Answer 6 a. Following are the advantages of outsourcing the accounting functions:

- (i) The organisation that outsources its accounting function is able to save time to concentrate on the core area of business activity.
- (ii) The organisation is able to utilise the expertise of the third party in undertaking the accounting work.
- (iii) Storage and maintenance of the data is in the hand of professional people.
- (iv) The organisation is not bothered about people leaving the organisation in key accounting positions.
- (v) The proposition is proving to be economically more sensible.

Answer 6 b. Following are the advantages of self-balancing ledger system:

- (i) It fixes the responsibility on the ledger keeper who had to balance the ledger. The error is localised.
- (ii) Interim accounts can be prepared without personal ledger to be balanced.
- (iii) The total amount due from debtors and total amount payable to suppliers and creditors is readily available.
- (iv) The maintenance of general ledger would be easy as the voluminous debtors and creditors details are maintained in control accounts.

Answer 6 c. Estimated Profits for the period from 1.1.2009 to 31.3.2009

= (30,000 / 3,60,000) 54,000 = 4500

Share of X (Rs.4,500X 3) / 6 = Rs. 2,250

Answer 6 d. For calculating managerial remuneration, first of all, the profit as per Section 349 have to be calculated in the following manner:

Calculation of Profits for the Purpose of Managerial Remuneration

<i>Particulars</i>	<i>Rs.</i>	<i>Rs.</i>
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Net Profit		2,00,000
Add: Depreciation (to be treated separately)	40,000	
Preliminary expenses	10,000	
Tax provision	3,10,000	
Bonus (to be treated separately)	15,000	
Provision for doubtful debts	9,000	
Scientific research expenditure (W.N.1)	20,000	
Managing Director's remuneration	<u>30,000</u>	4,34,000
		<u>6,34,000</u>
<i>Less:</i> Depreciation allowable under Schedule XIV to the Companies Act	35,000	
Bonus liability as per Payment of Bonus Act, 1965	18,000	
Capital profit on sale of fixed assets (W.N.2)	<u>6,500</u>	59,500
Profit under section 349		<u>5,74,500</u>

Calculation of Managerial Remuneration

<i>Particulars</i>	<i>Rs.</i>
Remuneration payable to Managing Director @ 5% of Rs.5,74,500	28,725
Remuneration already paid to Managing Director	<u>30,000</u>
Excess amount paid	<u>1,275</u>

Working Notes:

(1) Cost of setting up new machinery for scientific research is a capital expenditure. Therefore, it will not be treated as allowable expenses for computing managerial remuneration. At the time of calculation of profit, it was deducted from Net Profit. So, it is to be added back.

(2) Calculation of Capital Profit on Sale of Fixed Assets

<i>Particulars</i>	<i>Rs.</i>
Sale Price (W.D.V. + Profit on sale, i.e., Rs.11,000 + Rs.15,500)	26,500
<i>Less:</i> Cost price (original)	<u>20,000</u>
Capital Profit	<u>6,500</u>

Answer 6 e. Profit and Loss Account – (below the line) for the year ended 2008

		<i>Rs.</i>			<i>Rs.</i>
To	Depreciation	31,200	By	Profit	10,00,000
To	Provision for income tax	80,000			
To	Net profit c/d	<u>8,88,800</u>			
		<u>10,00,000</u>			<u>10,00,000</u>
To	Reserve fund	1,77,760	By	Balance b/f	80,000
To	Proposed preference dividend (1,82,000 + 93,450)	2,75,450	By	Net profit b/d	8,88,800
To	Proposed equity dividend (1,40,000 + 1,86,900)	3,26,900			
To	Bonus to employees (14,000 + 18,690)	32,690			
To	Balance c/d	<u>1,56,000</u>			
		<u>9,68,800</u>			<u>9,68,800</u>

Working Note:

<i>Balance of amount available for Preference and Equity shareholders and Bonus for Employees</i>	<i>Rs.</i>
Credit Side	9,68,800
<i>Less:</i> Dr. side [1,77,760 + 1,82,000 + 1,40,000 + 14,000 + 1,56,000]	<u>6,69,760</u>
	<u>2,99,040</u>

Suppose remaining balance will be = x

Suppose preference shareholders will get share from remaining balance = $X * \frac{1}{3} * \frac{1}{3}$

Equity shareholders will get share from remaining balance = $X * \frac{2}{3} = (\frac{2}{3}) X$

Bonus to Employees = $(\frac{2}{3}) X * \frac{10}{100} * \frac{2}{30} X$

Now, $\frac{2}{3} X + \frac{1}{3} X + \frac{2}{30} X = 2,99,040$

$32 X = 89,71,200$

$x = 89,71,200 / 32 = \text{Rs.} 2,80,350$

Share of preference shareholders - $\text{Rs.} 2,80,350 * \frac{1}{3} = \text{Rs.} 93,450$

Share of equity shareholders - $\text{Rs.} 2,80,350 * \frac{2}{3} = \text{Rs.} 1,86,900$

Bonus to employees - $\text{Rs.} 2,80,350 * \frac{2}{3} = \text{Rs.} 18,690$

(4X5=20 Marks)