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Solved Scanner Appendix

IPCC Gr. I Paper - 1
(Solution of May - 2017 & Question of November - 2017)

Paper - 1 : Accounting

Chapter - 1 : Accounting Standards

2017 - May [1] {C} (a), (c), (d)

(a) As per AS-1, "Disclosure of Accounting Policies," following are major considerations that govern selection of a particular Policy:

1. Prudence 2. Substance overform and 3. Materiality

As per the above considerations. In view of **uncertainty associated** with future events, **profits are not anticipated, but losses are provided** for as a **matter of conservatism. Provision should be created** for all known liabilities and losses even though the amount cannot be determined with certainty and **represents only a best estimate** in the light of available information.

As per AS 1, 'accrual' is one of the fundamental accounting assumptions. Irrespective of the terms of the contract, so long as the principal amount of a loan is not repaid, the lender cannot be placed in a disadvantageous position for non-payment of interest in respect of overdue amount. From the facts given in the question, it is apparent that the company has an obligation to pay because of the overdue interest amount.

Thus, in the given case, ABC Financial Services Ltd. should make provision for interest from the due date of ICDs to date of repayment even though the amount cannot be determined. Thus, it should represent only a best estimate in the light of available information.

Thus, the treatment done by the company that these claims are in nature of "claims against the company not acknowledged as debt" and the disclosure by way of note in the accounts instead of making a provision in the P & L A/c is not correct as per AS-1.

(c) Computation of Amount to be charged to P & L A/c and additional Provision (As per AS-7)

Particulars		**Amount** (₹)
Cost of construction incurred upto 31.03.17 (W. N.-1)		1,34,00,000
Add:	Estimated Future cost	33,50,000
	Total Estimated cost of construction	1,67,50,000
	Degree of Completion $\left(\frac{1,34,00,000}{1,67,50,000} \times 100\right)$	80%
	Revenue Recognized (1,50,00,000 × 80%)	1,20,00,000
	Total Foreseeable loss(1,67,50,000 – 1,50,00,000)	17,50,000
Less:	Loss of Current Year (1,34,00,000 – 1,20,00,000)	(14,00,000)
	Additional Provision for Foreseeable loss	3,50,000

Working Note:

1. **Cost of Construction incurred upto 31.03.17**

Particulars	**Amount** (₹)	**Amount** (₹)
Material Issued	75,00,000	
(–) Unused Material	(4,00,000)	71,00,000
Labour Charges Paid	36,00,000	
+ Outstanding	2,00,000	38,00,000
Hire Charges of Plant		10,00,000
Other Contract Cost		15,00,000
		1,34,00,000

(d) As per AS-9 "Revenue Recognition", in a transaction involving the sale of goods, performance should be regarded as being achieved when the following conditions are fulfilled:

1. The seller of goods has transferred to the buyer the property in the goods for price or all significant risks and rewards of ownership have been transferred to the buyer and the seller retains no effective control of the goods transferred to a degree usually associated with ownership

and

2. No significant uncertainty exists regarding the amount of the consideration that will be derived from the sale of the goods.

In the given case, transfer of property in goods results in or coincides with the transfer of significant risks and rewards of ownership to the buyer. Also, the sale price has been recovered by the seller. Hence, the sale is complete but delivery has been postponed at buyer's request. Raj Ltd. should recognize the entire sale of ₹ 30,00,000 (₹ 5,00,000 × 6) and no part of the same is to be treated as Advance Receipt against Sales.

2017 - Nov [1] {C} (a) ABC Ltd. is installing a new plant at its production facility. It provides you the following information:

Cost of the plant (cost as per supplier's invoice)	₹ 31,25,000
Estimated dismantling costs to be incurred after 5 years	₹ 2,50,000
Initial Operating losses before commercial production	₹ 3,75,000
Initial delivery and handling costs	₹ 1,85,000
Cost of site preparation	₹ 4,50,000
Consultants used for advice on the acquisition of the plant	₹ 6,50,000

Please advise ABC Ltd. on the costs that can be capitalised for plant in accordance with AS 10 : Property, Plant and Equipment. (5 marks)

2017 - Nov [1] {C} (b) A Limited is engaged in manufacturing of Chemical Y for which Raw Material X is required. The company provides you following information for the year ended 31st March, 2017.

	₹ per unit
Raw Material X	
Cost price	380
Unloading Charges	20
Freight Inward	40
Replacement cost	300
Chemical Y	
Material consumed	440
Direct Labour	120
Variable Overheads	80

Additional Information:

(i) Total fixed overhead for the year was ₹ 4,00,000 on normal capacity of 20,000 units.

(ii) Closing balance of Raw Material X was 1,000 units and Chemical Y was ₹ 2,400 units.

You are required to calculate the total value of closing stock of Raw Material X and Chemical Y according to AS 2, when

(a) Net realizable value of Chemical Y is ₹ 800 per unit

(b) Net realizable value of Chemical Y is ₹ 600 per unit (5 marks)

2017 - Nov [1] {C} (c) Fashion Limited is engaged in manufacturing of readymade garments. They provide you the following information on 31st March, 2017:

(i) On 15th January, 2017 garments worth ₹ 4,00,000 were sent to Anand on consignment basis of which 25% garments unsold were lying with Anand as on 31st March, 2017.

(ii) Garments worth ₹ 1,95,000 were sold to Shine boutique on 25th March, 2017 but at the request of Shine Boutique, these were delivered on 15th April, 2017.

(iii) On 1st November, 2016 garments worth ₹ 2,50,000 were sold on approval basis. The period of approval was 4 months after which they were considered sold. Buyer sent approval for 75% goods up to 31st December, 2016 and no approval or disapproval received for the remaining goods till 31st March, 2017.

You are required to advise the accountant of Fashion Limited, the amount to be recognised as revenue in above cases in the context of AS 9. (5 marks)

2017 - Nov [1] {C} (d) What are Accounting Standards? Explain the issues, with which they deal. (5 marks)

Chapter - 3 : Cash Flow Statement

2017 - May [1] {C} (b)

Cash: Cash in hand and deposits repayable on demand with any bank or other financial institutions.

Cash equivalent: Which are short-term, highly liquid investments that are readily convertible into known amounts of cash and are subject to insignificant risk or change in value.

Foreign Exchange Fluctuation:

On Date of Receipt (67.05)	16,76,250
On Balance Sheet Date (67.80)	16,95,000
Foreign Exchange Gain	18,750

The Foreign currency monetary assets (e.g. balance with bank, debtors etc.) and liabilities (e.g. creditors) are initially recognised by translating them into reporting currency by the rate of exchange transaction date. On the balance sheet date, these are restated using the rate of exchange on the balance sheet date. The difference in value is exchange gain/loss. The exchange gain and losses are recognised in the statement of profit and loss as per AS-11.

The exchange gain/losses in respect of cash and cash equivalents in foreign currency. (e.g. balance in foreign currency bank account) are recognised by the principle aforesaid, and these balances are restated in the balance sheet in reporting currency at the rate of exchange on balance sheet date. The change in cash or cash equivalents due to exchange gains and losses are however not cash flows. This being so, the net increases/decreases in cash or cash equivalents in the cash flow statements are stated exclusive of exchange gains and losses.

The resultant difference between cash and cash equivalents as per the cash flow statement and that recognised in the balance sheet is reconciled in the note on cash flow statement as per AS-3, "Cash Flow Statement."

2017 - Nov [5] (a) The Balance Sheet of Harry Ltd. for the year ending 31st March, 2017 and 31st March, 2016 were summarised as:

	2017 ₹	**2016** ₹
Equity Share Capital	1,20,000	1,00,000
Reserves:		
Profit and Loss Account	9,000	8,000
Current Liabilities:		
Trade Payables	8,000	5,000
Income Tax Payable	3,000	2,000
Proposed Dividends	4,000	2,000
	1,44,000	**1,17,000**
Fixed Assets (at W.D.V.)		
Building	19,000	20,000
Furniture & Fixture	34,000	22,000
Cars	25,000	16,000
Long Term Investments	32,000	28,000

Current Assets:		
Inventory	14,000	8,000
Trade Receivables	8,000	6,000
Cash & Bank	12,000	17,000
	1,44,000	**1,17,000**

The Profit and Loss Account for the year ended 31st March, 2017 disclosed:

	₹
Profit before tax	8,000
Income Tax	(3,000)
Profit after tax	5,000
Proposed Dividends	(4,000)
Retained Profit	1,000

Further Information is available:

1. Depreciation on Building ₹ 1,000
2. Depreciation on Furniture & Fixtures for the year ₹ 2,000
3. Depreciation on Cars for the year ₹ 5,000. One car was disposed during the year for ₹ 3,400 whose written down value was ₹ 2,000.
4. Purchase investments for ₹ 6,000.
5. Sold investments for ₹ 10,000, these investments cost ₹ 2,000.

Prepare Cash Flow Statements as per AS-3 (revised) using indirect method. (12 marks)

Chapter - 4 : Profit or Loss Pre and Post Incorporation

2017 - May [5] (a)

A statement showing calculation of pre & post incorporation profit

Particulars	Basis	Ratio	Pre	Post
Gross Profit	Sales	1 : 8	50,000	4,00,000
Bad debt recovered	Pre	–	14,000	–
			64,000	4,00,000
Less:				
Salary	Time	1 : 5	24,000	1,20,000

Interest on Debenture	Post	–	–	36,000
Sales Commission	Sales	1 : 8	2,000	16,000
Bad debts	Sales	1 : 8	7,000	56,000
Depreciation	W. N. 4		3,000	16,250
Rent	W. N. 5		4,000	34,400
Audit fees	Post		–	12,000
Transfer to capital reserve			24,000	
Transfer to P&L A/c				1,09,350

Working Notes:

1. **Time Ratio = 2 : 10 or 1 : 5**

   Pre: 1-4-16 to 31-5-16 = 2 months

   Post: 31-5-16 to 31-3-17 = 10 months

2. **Sales Ratio:**

	Total Sales	18,00,000
(–)	Pre - Incorporation [6,00,000 × 2/6]	(2,00,000)
	Post - Incorporation	16,00,000

   Ratio = 2 : 16
   = 1 : 8

3. **Calculation of Bad debt:**

Bad Debt	49,000
(+) Bad Debt recovery	14,000
	63,000

4. **Depreciation:**

	Total	19,250
(–)	Post - Incorporation	(1,250)
		18,000
(–)	Pre [18,000 × 1/6]	(3,000)
	Post	15,000

5. **Rent:**

	Total	38,400
(–)	Post [2,400 × 6]	(14,400)
		24,000
(–)	Pre-Incorporation (2,000 × 2)	(4,000)
	Post (2,000 × 10 + 14,400)	34,400
		38,400

Chapter - 6 : Accounting for Business Acquisition, Amalgamation and Reconstruction

2017 - May [2]

In the books of P Ltd.

Realisation A/c

Particulars	Amount (₹)	Particulars	Amount (₹)
To Goodwill	1,00,000	By 8% Debentures	2,00,000
To Land & Building	4,50,000	By Unsecured Loan	—
To Furniture and Fittings	1,00,000	By Creditors	88,000
To Plant & Machinery	6,20,000	By PQ Ltd.	16,02,100
To Debtors	3,25,000	By Equity Shareholders	1,37,900
To Stock	2,33,000		
To Cash at bank	1,08,000		
To Cash in hand	54,000		
To Pref. Shareholders	38,000		
	20,28,000		20,28,000

Equity Shareholders A/c

Particulars	Amount (₹)	Particulars	Amount (₹)
To Equity Share in PQ Ltd.	10,82,400	By Share Capital	8,20,000
To Cash	1,01,700	By General Reserve	1,50,000
To Realisation A/c	1,37,900	By P & L A/c	3,52,000
	13,22,000		13,22,000

9% Preference Shareholders A/c

Particulars	Amount (₹)	Particulars	Amount (₹)
To Pref. Shareholders in P Q Ltd.	4,18,000	By Share Capital	3,80,000
		By Realisation A/c	38,000
	4,18,000		4,18,000

P Q Ltd. A/c

Particulars	Amount (₹)	Particulars		Amount (₹)
To Realisation A/c	16,02,100	By Equity Share in PQ Ltd.		
		Equity	10,82,400	
		Preference	4,18,000	15,00,400
		By Cash		1,01,700
	16,02,100			16,02,100

In the books of Q. Ltd.
Realisation A/c

Particulars	Amount (₹)	Particulars	Amount (₹)
To Goodwill	80,000	By 8% Debentures	1,00,000
To Land & Building	3,40,000	By Unsecured Loan	1,75,000
To Furniture and Fittings	50,000	By Creditors	1,60,000
To Plant & Machinery	4,50,000	By PQ Ltd.	7,92,250
To Debtors	1,50,000	By Equity Shareholders	90,750
To Stock	1,05,000		
To Cash at bank	95,000		
To Cash in hand	20,000		
To Pref. Shareholders	28,000		
	13,18,000		13,18,000

Equity Shareholders A/c

Particulars	Amount (₹)	Particulars	Amount (₹)
To Equity Share of P Q Ltd.	4,22,400	By Share Capital	3,20,000
To Cash	61,850	By General Reserve	50,000
To Realisation A/c	90,750	By P & L A/c	2,05,000
	5,75,000		5,75,000

9% Preference Shareholders A/c

Particulars	Amount (₹)	Particulars	Amount (₹)
To Preference Share of PQ Ltd.	3,08,000	By Share Capital	2,80,000
		By Realisation	28,000
	3,08,000		3,08,000

PQ Ltd. A/c

Particulars	Amount (₹)	Particulars		Amount (₹)
To Realisation A/c	7,92,250	By Equity Share in PQ Ltd.		
		Equity	4,22,400	
		Preference	3,08,000	7,30,400
		By Cash		61,850
	7,92,250			7,92,250

Working Notes:

1. Purchase Consideration:

	P Ltd.	Q Ltd.
• **Preference Shareholders**		
(3800 × 5) = 19000 Shares × ₹ 22	4,18,000	
(2800 × 5) = 14000 Shares × ₹ 22		3,08,000
• **Equity Shareholders**		
(8200 × 6) = 49200 Share × ₹ 22	10,82,400	
(3200 × 6) = 19200 Share × ₹ 22		4,22,400
• Cash (W. N. - 2)	1,01,700	61,850
	16,02,100	7,92,250

2. Value of Net Assets:

	P Ltd.	Q Ltd.
Goodwill	1,00,000	80,000
Land & Building	4,50,000	3,40,000
Furniture & Fittings	90,000	45,000
Plant & Machinery	5,58,000	4,05,000
Debtors	3,08,750	1,42,500
Stock	2,21,350	99,750
Cash at bank	1,08,000	95,000
Cash in hand	54,000	20,000
	18,90,100	12,27,250
Less: 8% Debentures	(2,00,000)	(1,00,000)
Unsecured Loan	–	(1,75,000)
Creditors	(88,000)	(1,60,000)
	16,02,100	7,92,250
Payable in Shares	(15,00,400)	(7,30,400)
Payable in Cash	1,01,700	61,850

2017 - Nov [2] M/s Planet Limited has decided to reconstruct the Balance Sheet since it has accumulated huge losses. The following is the balance sheet of the company as on 31st March, 2017 before reconstruction:

Particulars	Note No.	Amount (₹ in lakh)
Equity & Liabilities		
Shareholders' Funds		
Share Capital	1	2,100
Reserves & Surplus	2	(783)
Non-Current Liabilities		
Long term Borrowings	3	1,050

Current Liabilities		
Trade Payables	4	153
Other Liabilities	5	36
Total		**2,556**
Assets		
Non-Current Assets:		
Fixed Assets		
Tangible Assets	6	1,125
Current Assets		
Current Investments	7	300
Inventories	8	450
Trade Receivables	9	675
Cash & Cash Equivalents	10	6
Total		**2,556**

Notes to Accounts:

		₹ in lakh
(1)	Share Capital	
	Authorised:	
	300 lakh shares of ₹ 10 each	3,000
	12 lakh, 8% Preference Shares of ₹ 100 each	1,200
		4,200
	Issued, Subscribed and Paid up:	
	150 lakh Equity Shares of ₹ 10 each, fully paid up	1,500
	6 lakh 8% Preference Shares of ₹ 100 each, fully paid up	600
		2,100

(2)	Reserves and Surplus	
	Debit balance of Profit & Loss A/c	(783)
(3)	Long Term Borrowings	
	6% Debentures (Secured by Freehold Property)	600
	Director's Loan	450
		1,050
(4)	Trade Payables	
	Trade payables for Goods	153
(5)	Other Liabilities	
	Interest Accrued and Due on 6% Debentures	36
(6)	Tangible Assets	
	Freehold Property	825
	Plant & Machinery	300
		1,125
(7)	Current Investment	
	Investment in Equity Instruments	300
(8)	Inventories	
	Finished Goods	450
(9)	Trade Receivables	
	Trade receivables for Goods	675
(10)	Cash and Cash Equivalents	
	Balance with Bank	6

The Board of Directors of the company decided upon the following scheme of reconstruction with the consent of respective shareholders:

(1) Preference Shares are to be written down to ₹ 75 each and Equity Shares to ₹ 2 each.

(2) Preference Shares Dividend in arrears for 3 years to be waived by $2/3^{rd}$ and for balance $1/3^{rd}$, Equity Shares of ₹ 2 each to be allotted.

(3) Debenture holders agreed to take one Freehold Property at its book value of ₹ 450 lakh in part payment of their holding. Balance Debentures to remain as liability of the company.
(4) Interest accrued and due on Debentures to be paid in cash.
(5) Remaining Freehold Property to be valued at ₹ 550 lakh.
(6) All investments sold out for ₹ 425 lakh.
(7) 70% of Directors' loan to be waived and for the balance, Equity Shares of ₹ 2 each to be allotted.
(8) 40% of Trade receivables and 80% of Inventories to be written off.
(9) Company's contractual commitments amounting to ₹ 900 lakh have been settled by paying 8% penalty of contract value.

You are required to:
(a) Pass Journal Entries for all the transactions related to internal reconstruction;
(b) Prepare Capital Reduction Account, Bank Account; and
(c) Prepare Notes to Accounts on Share Capital and Tangible Assets, immediately after the implementation of internal reconstruction.

(16 marks)

2017 - Nov [7] (d) A Ltd. decides to absorb B Ltd. The draft Balance Sheet of B Limited is as follows:

Liabilities	₹
Share Capital:	
5,000 9% Preference shares of ₹ 100 each (Fully paid up)	5,00,000
12,500 Equity shares of ₹ 100 each (Fully paid up)	12,50,000
Reserves	7,50,000
6% Debentures	5,00,000
Trade payables	2,50,000
Total	**32,50,000**
Assets:	
Sundry Assets	32,50,000
Total	**32,50,000**

A Ltd. has agreed:
(i) To pay ₹ 20 per share in cash to equity shareholders of B Ltd. and will issue six equity shares of ₹ 100 each (Market value ₹ 125) in lieu of every five equity shares held in B Ltd.

(ii) To issue 9% Preference shares of ₹ 100 each, in the ratio of 3 shares of A Ltd. for 4 Preference shares in B Ltd.

(iii) To issue 8% debentures at ₹ 96 in lieu of 6% debentures in B Ltd. which are to be redeemed at a premium of 20%.

You are required to calculate the purchase consideration. (4 marks)

Chapter - 7 : Average Due Date

2017 - May [7] (e)

Date of Bill	**Due Date**	**Amount**	**No. of days from 6th August**	**Product**
30th July	9th August	12,000	3	36,000
12th August	22nd August	25,000	16	4,00,000
27th July	6th August	18,000	0	0
10th September	20th September	7,000	45	3,15,000
12th September	22nd September	21,000	47	9,87,000
		83,000		**17,38,000**

Average Due Date = Base Date + $\frac{\textbf{Sum of Product}}{\textbf{Sum of Amount}}$

= 6th August + $\frac{17{,}38{,}000}{83{,}000}$

= 6th August + 21

= $\boxed{\text{27th August}}$

No. of days after 27th August to 30th September = $\boxed{\text{34 days}}$

Interest Payable by Praveen on ₹ 83,000 for 34 days @ 8% p.a.

= $83{,}000 \times \frac{34}{365} \times \frac{8}{100}$

= ₹ 618.52

Chapter - 8 : Account Current

2017 - May [3] (b)

B in Account Current with A (Interest to 31st March, 2017 @ 10% p.a.)

Date	Particulars	Due Date	Amount (₹)	Days	Product (₹)	Date	Particulars	Due Date	Amount (₹)	Days	Products (₹)
1-1-17	To Bal. b/d	–	1,00,000	–	–	15-1-17	By Cash	–	2,00,000	15	30,00,000
10-1-17	To Sales	–	2,00,000	10	20,00,000	1-3-17	By Cash	–	1,00,000	60	60,00,000
15-2-17	To Sales	–	2,00,000	46	92,00,000	31-3-17	By Bal. of Product	–			1,80,00,000
31-3-17	To Bal of Prod.	–	–	–	1,58,00,000		[2,00,000 × 90]				
31-3-17	To Int. on Bal. $\left[\frac{1,58,00,000 \times 10 \times 1}{365 \times 100}\right]$		4,329			31-3-17	By Bal. c/d		2,04,329		
			5,04,329		2,70,00,000				5,04,329		2,70,00,000

2017 - Nov [7] (b)

The following transactions took place between Abhik and Dipak during 1st January, 2017 to 31st March, 2017:

Date		₹
1.1.2017	Balance due to Abhik by Dipak	2,16,000
15.1.2017	Goods sold by Dipak to Abhik	3,50,000
15.2.2017	Cash paid by Abhik to Dipak	1,00,000
15.3.2017	Goods sold by Abhik to Dipak	2,00,000

Draw up an Account Current upto 31.3.2017 to be rendered by Abhik to Dipak, by means of Product Method, charging interest at 9% per annum. Interest to be calculated to the nearest rupee. (4 marks)

Chapter - 9 : Self Balancing Ledgers

2017 - May [7] (a)

	Particulars	Amount	Amount
(a)	Total Debtors Account Dr.	10,000	
	To Sales Account		10,000
	(Rectification of the consequence of the under-casting the sales book)		
(b)	Credit Ram with ₹ 500 (In sales ledger)		
(c)	1. Manish (In purchase ledger) Dr.	3,600	
	To Manish (In sales ledger)		3,600
	(Transfer of Manish's credit balance ₹ 3,600 in the purchase ledger to his account in the sales ledger.)		
	2. Total Capital A/c Dr.	3,600	
	To Total Debtors A/c		3,600
	(Adjustment of total accounts because of the transfer of Manish's account, in the purchase ledger to the sales ledger.)		

2017 - Nov [3] (b) M/s. Martin Ltd. maintains self balancing ledgers. On the basis of the following information, prepare General Ledger Adjustment Account in Debtors Ledger for the month of March, 2017

	₹
Debit balance in Debtors Ledger on 01.03.2017	4,36,200
Credit balance in Debtors Ledger on 01.03.2017	12,600
Transactions during the month of March, 2017 are:	
Total sales (Including cash sales of ₹ 2,50,000)	18,00,000
Bad debts recovered (written off in the year 2015-16)	1,000
Interest debited for delay in payment	3,500
Sales Returns	40,000
Cash received from Debtors	16,55,000
Bills Receivables received from Debtors	98,000

Bills Receivables dishonoured	6,000
Discount allowed to debtors for prompt payment	1,500
Noting charges on bills dishonoured	300
Bills Receivables endorsed to suppliers	7,000
Credit balance in Debtors Ledger on 31.03.2017	15,400

(6 marks)

2017 - Nov [7] (e) What is self-balancing system? How certain accounts can be kept secret from the members of the staff, in this system? (4 marks)

Chapter - 10 : Financial Statements of Not for Profit Organisations

2017 - May [3] (a)

Journal entries for Building Fund Ledger

	Particulars	Amount (₹)	Amount (₹)
1	Bank A/c Dr. To Building fund A/c (on collection of Donation)	4,20,000	 4,20,000
2	Bank A/c Dr. To Building fund A/c (40% of the development fees directly transferred to Building fund)	6,76,950	 6,76,950
3	Fixed Deposit A/c Dr. To Interest A/c (Interest accrued on fixed deposit transferred)	33,750	 33,750
4	Interest A/c Dr. To Building fund A/c (Interest accrued on fixed deposit transferred)	33,750	 33,750
5	Capital Work-in-progress A/c Dr. To Contractor's A/c (work completed and certified during the year)	5,43,750	 5,43,750
6	Contractor's A/c Dr. To Bank A/c (Payment made during the year)	9,76,875	 9,76,875

7	Building A/c Dr. To Capital Work-in-progress (Transfer of completed building to Asset A/c)	11,62,500	11,62,500
8	Building fund A/c Dr. To General fund A/c (Corresponding building fund transferred)	11,62,500	11,62,500

Trial Balance of Building Fund As on 31-3-2016

Particulars	**Dr.** (₹)	**Cr.** (₹)
Building fund		7,18,200
Contractor’s A/c		1,85,625
Fixed Deposit A/c	4,83,750	
Current A/c	4,20,075	
	9,03,825	9,03,825

2017 - Nov [4] Following is the summary of Receipts and Payments of Radix Clinic for the year ended 31st March, 2017:

	₹
Opening Cash Balance	56,000
Donation Received (including ₹ 50,000 for Building Fund)	1,55,000
Payment to creditors for Medicines Supply	2,10,000
Salaries	70,000
Purchase of Medical Equipments	1,05,000
Medical Camp Collections	87,500
Subscription Received	3,50,000
Interest on Investments @ 9% p.a.	63,000
Honorarium to Doctors	1,90,000
Telephone Expenses	6,000
Medical Camp Expenses	10,500

Miscellaneous Expenses	7,000

Additional Information:

Sl. No.		01.04.2016 ₹	31.03.2017 ₹
1.	Subscription Due	10,500	15,400
2.	Subscription Received in Advance	8,400	4,900
3.	Stock of Medicine	70,000	1,05,000
4.	Medical Equipments	1,47,000	2,14,200
5.	Building	3,50,000	3,15,000
6.	Creditor for Medicine Supply	63,000	91,000
7.	Investments	7,00,000	7,00,000

You are required to prepare Receipts and Payments Account and Income and Expenditure Account for the year ended 31st March, 2017 and the Balance Sheet as on 31st March, 2017. (16 marks)

Chapter - 11 : Accounts From Incomplete Records

2017 - May [4]

Trading A/c

For the year ending on 31st March, 2017

Particulars	Amount (₹)	Particulars	Amount (₹)
To Opening stock	80,000	By Sales	6,08,750
To Purchases	4,56,000	By Goods used advertisement	9000
To Freight inward	30,000	By Closing stock	70,000
To Gross Profit	1,21,750		
	6,87,750		6,87,750

P&L A/c

For the year ending on 31st March, 2017

Particulars	Amount (₹)	Particulars	Amount (₹)
To Depreciation	6,500	By Gross Profit	1,21,750
To Discount allowed (Debtors)	15,000	By Discount received	8,000

To Discount on bills receivable		1,250	By Interest on Investments		600
To Advertisement		9,000	By Miscellaneous receipt		5,000
To Expense					
Cash/ Bank Paid	95,000				
(+) Prepaid (P.Y.)	6,000				
(-) Prepaid (C.Y.)	(7,000)				
	94,000				
(+) Outstanding (C.Y.)	18,000				
(-)Outstanding (P.Y.)	(20,000)	92,000			
To Provision for Doubtful debt		1,455			
To Net Profit		10,145			
		1,35,350			1,35,350

Balance Sheet as on 31.03.2017

Liabilities		Amount (₹)	Assets		Amount (₹)
Capital	1,88,000		Furniture	60,000	
(-)Withdrawal	(70,000)		(+) Increase	10,000	
(-)Withdrawal	(21,000)		(-) Depreciation	(6,500)	63,500
	97,000		Stock		70,000
(+) Net profit	10,145	1,07,145	Prepaid expenses		7,000
Creditors		. 1,50,000	Cash & Bank		26,250
Outstanding expenses		18,000	Investments	19,000	
			(+) Interest	600	19,600
			$\left[20{,}000 \times 6\% \times \frac{6}{12}\right]$		
			Debtors	72,750	
			(-) P.F.D.D	(1,455)	71,295
			Bill Receivable		17,500
		2,75,145			2,75,145

Balance Sheet as on 31.03.2016

Liabilities	Amount (₹)	Assets	Amount (₹)
Capital (Bal. Fig.)	1,88,000	Furniture	60,000
		Stock	80,000
Creditors	1,10,000	Debtors	1,60,000
Outstanding expenses	20,000	Prepaid Exp.	6,000
		Cash & Bank	12,000
	3,18,000		3,18,000

Cash A/c

Particulars	Amount (₹)	Particulars	Amount (₹)
To Balance b/d	12,000	By Creditors	3,92,000
To Debtors	5,85,000	By Freight inward	30,000
To B/R	61,250	By Withdraw	70,000
Misc. Receipts	5,000	By Furniture	10,000
		By Investments	19,000
		By Salaries	95,000
		By Withdraw	21,000
		By Balance c/d	26,250
	6,63,250		6,63,250

Debtors A/c

Particulars	Amount (₹)	Particulars	Amount (₹)
To Balance b/d	1,60,000	By Cash/Bank	5,85,000
To BIR Dishonoured	4,000	By Discount	15,000
To Sales	6,08,750	By B/R	1,00,000
		By Balance c/d	72,750
	7,72,750		7,72,750

Creditors A/c

Particulars	Amount (₹)	Particulars	Amount (₹)
To Cash/Bank A/c	3,92,000	By Balance b/d	1,10,000
To Discount	8,000	By B/R Dishonoured	4,000
To Bills Receivable	20,000	By Purchase	4,56,000
To Balance c/d	1,50,000		
	5,70,000		5,70,000

Bills Receivable A/c

Particulars	Amount (₹)	Particulars	Amount (₹)
To Debtors A/c	1,00,000	By Creditor's	20,000
		By Cash/Bank	61,250
		By Discount	1,250
		By Balance c/d	17,500
	1,00,000		1,00,000

Working Note:

Calculation of Sales & Gross profit

	Opening Stock	80,000
(+)	Purchase	4,56,000
(+)	Freight inward	30,000
		5,66,000
(–)	Goods used for Advertisement	(9,000)
(–)	Closing Stock	(70,000)
	COGS	4,87,000
(+)	Gross Profit (25%)	1,21,750
	Sales	6,08,750

2017 - Nov [7] (c) Mr. Aman is running a business of readymade garments. He does not maintain his books of accounts under double entry system. While assessing the income of Mr. Aman for the financial year 2016-17, Income Tax Officer feels that he has not disclosed the full income earned by him from his business. He provides you the following information:

On 31st March, 2016	
Sundry Assets	₹ 16,65,000
Liabilities	₹ 4,13,000
On 31st March, 2017	
Sundry Assets	₹ 28,40,000
Liabilities	₹ 5,80,000
Mr. Aman's drawings for the year 2016-17	₹ 32,000 per month
Income declared to the Income Tax Officer	₹ 9,12,000

During the year 2016-17, one life insurance policy of Mr. Aman was matured and amount received ₹ 50,000 was retained in the business.

State whether the Income Tax Officer's contention is correct. Explain by giving your working. (4 marks)

Chapter - 12 : Hire Purchase and Instalment Sale Transactions

2017 - May [7] (b)

Differences between Hire Purchase and Installment System

	Basis of Distinction	Hire Purchase Agreement	Installment Purchase Agreement
1.	**Governing Act**	It is governed by Hire Purchase Act, 1972.	It is governed by the Sale of Goods Act, 1930.
2.	**Nature of Contract**	It is an agreement of hiring.	It is an agreement of sale.
3.	**Passing of Title (ownership)**	The title to goods passes on last payment.	The title to goods passes immediately as in the case of usual sale.
4.	**Right to Return goods**	The hirer may return goods without further payment except for accrued installments.	Unless seller defaults, goods are not returnable.
5.	**Seller's right to repossess**	The seller may take possession of the goods if hirer is in default.	The seller can sue for price if the buyer is in default. He cannot take possession of the goods.

6.	**Right of Disposal**	Hirer cannot hire out, sell, pledge or assign entitling transferee to retain possession as against the hire vendor.	The buyer may dispose off the goods and give good title to the *bona fide* purchaser.
7.	**Responsibility for Risk of Loss**	The hirer is not responsible for risk of loss of goods if he has taken reasonable precaution because the ownership has not yet been transferred.	The buyer is responsible for risk of loss of goods because the ownership has transferred.
8.	**Name of Parties involved**	The parties involved are called Hirer and Hire vendor.	The parties involved are called buyer and seller.
9.	**Component other than cash price.**	Component other than Cash Price included in installment is called Hire charges.	Component other than Cash Price included in Installment is called Interest.

2017 - Nov [5] (b) Explain the special features of hire purchase agreement. (4 marks)

Chapter - 13 : Investment Accounts

2017 - May [5] (b)

Investment A/c of Akash Ltd.
[Equity share of X Ltd. F.V. ₹ 10%]

Dr. **Cr.**

Date	Particulars	No.	Amount	Date	Particulars	No.	Amount
1-4-16	To Balance b/d	4,000	60,000	20-1-17	By Bank	—	2,000
1-9-16	To Cash/Bank	1,000	14,000		[Dividend on sh.		
30-9-16	To Bonus		—		Acquired] [on 1-9-16]		
	$\left[5{,}000 \times \frac{2}{5}\right]$	2,000					

1-12-16	To Cash/Bank $\left[\frac{7{,}000\times2}{7}\times\frac{50}{100}\right]$	1,000	12,500	1-2-17	By Bank	4,000	56,000
1-2-17	To Profit (on sale)		13,750	31-3-17	By Balance c/d	4,000	42,250
		8,000	**1,00,250**			**8,000**	**1,00,250**

⇒ **Working Notes: GENUINENESS**

1. **Dividend Received on shares acquired on 1-9-16**.
   = 1,000 shares × 10 × 20% = 2,000
2. **Profit on sale of shares:**
   = Sale proceeds – Average Cost
   Sale Proceeds = 4,000 shares × ₹ 14 = 56,000

   Average Cost = $\left(\frac{60{,}000+14{,}000+12{,}500-2{,}000}{8{,}000}\right)\times 4{,}000$
   = 1,05,625 × 4,000
   = 42,250

   Profit = 56,000 – 42,250
   = 13,750

   Here, cost price of share is less than the market value of ₹ 13 per share. Thus, it should be valued at cost.

Chapter - 14 : Insurance Claims for Loss of Stock and Loss of Profit

2017 - May [7] (c)

Consequential Loss Policy:

When a fire occurs, apart from the direct loss on accounts of stock or other assets destroyed, there is also a consequential loss because , for sometimes, the business is disorganised or has to be discontinued, and during that period, the standing expenses of the business like rent, salaries etc. Continue.

The consequential loss policy covered the following items:

(1) Loss of net profit
(2) Standing charges
(3) Any increased cost of working e.g., renting of temporary premises.

2017 - Nov [3] (a) On 27th July, 2016, a fire occurred in the godown of M/s. Vijay Exports and most of the stocks were destroyed. However goods costing ₹ 5,000 could be salvaged. Their fire fighting expenses were amounting to

₹ 1,300. From the salvaged accounting records, the following information is available relating to the period from 1.4.2016 to 27.7.2016:

1.	Stock as per balance sheet as on 31.3.2016	₹ 63,000
2.	Purchases (including purchase of machinery costing ₹ 10,000)	₹ 2,92,000
3.	Wages (including wages paid for installation of machinery ₹ 3,000)	₹ 53,000
4.	Sales (including goods sold on approval basis amounting to ₹ 40,000). No approval has been received in respect of 1/4th of the goods sold on approval.	₹ 4,12,300
5.	Cost of goods distributed as free sample	₹ 2,000

Other Information:

(i) While valuing the stock on 31.3.2016, ₹ 1,000 had been written off in respect of certain slow moving items costing ₹ 4,000. A portion of these goods were sold in June, 2016 at a loss of ₹ 700 on original cost of ₹ 3,000. The remainder of these stocks is now estimated to be worth its original cost.

(ii) Past record shows the normal gross profit rate is 20%.

(iii) The insurance company also admitted firefighting expenses. The Company had taken the fire insurance policy of ₹ 55,000 with the average clause.

Compute the amount of claim of stock destroyed by fire, to be lodged to the Insurance Company. Also prepare Memorandum Trading Account to be for the period 1.4.2016 to 27.7.2016 for normal and abnormal items. (10 marks)

Chapter - 15 : Introduction to Partnership Accounts

2017 - May [6]

Balance Sheet as on 1st August, 2016

Liabilities	Amount (₹)	Assets	Amount (₹)
Capital Accounts:		Building	4,50,000
Shyam	2,25,000	Plant & Machinery	97,700
Laxman	2,25,000	Stock	33,000
Shankar	1,20,000	Debtors	66,900
Current Accounts:		Furniture & Fittings	66,700
Shyam	21,600	Cash at Bank	1,48,500

Laxman	6,600	(1,01,100 + 1,65,000 – 1,17,600)	
Sundry Creditors	29,400		
Ram's Executor's Loan	2,35,200		
	8,62,800		**8,62,800**

Working Notes:

1. Calculation of Goodwill

Profit for the year ended 31.3.2013	86,700
Profit for the year ended 31.3.2014	1,43,200
Profit for the year ended 31.3.2015	1,07,600
	3,37,500

Average Profit = $\frac{3,37,500}{3}$ = 1,12,500

Goodwill = ₹ 1,12,500 × 2 years = ₹ 2,25,000

Ram's share of goodwill = 2,25,000 × $\frac{1}{3}$ = 75,000

Shankar's share of goodwill = 2,25,000 × $\frac{1}{5}$ = 45,000

2. Balance Sheet as on 31st July, 2016

Liabilities	Amount (₹)	Assets	Amount (₹)
Capital A/c (balancing figure)	7,86,000	Building	4,50,000
Creditors	29,400	Stock	33,000
		Sundry Debtors	66,900
		Plant and Machinery	97,700
		Furniture & Fitting	66,700
		Cash at Bank	1,01,100
	8,15,400		8,15,400

3. Calculation of profits made during the period of 1st April, 2016 to 31st July, 2016

Particulars	₹
Combined Capital (of all partners) as on 31.7.2016	7,86,000
Less: Capital on 1.4.16	
(2,70,000 + 2,40,000 + 2,40,000 + 4,200 + 6,000 - 3,000)	7,57,200
	28,800
Add: Drawings of all partners (60,000 + 48,000 + 54,000)	1,62,000
Total Profit	1,90,800
Share of Profit of each partner	63,600

4. Partners' Capital Accounts

Dr. **Cr.**

Particulars	Ram	Shyam	Laxman	Shankar	Particulars	Ram	Shyam	Laxman	Shankar
	₹	₹	₹	₹		₹	₹	₹	₹
To Ram (Goodwill adj.)	—	37,500	37,500	—	By Balance b/d	2,70,000	2,40,000	2,40,000	—
					By Goodwill adjustment (Shyam and Laxman)	75,000	—	—	—
To Ram's Executors A/c	3,52,800	—	—	—	By Ram's Current A/c	7,800	—	—	
To Shyam and Laxman	—	—	—	45,000	By Cash	—	—	—	1,65,000
					By Shankar (Goodwill adj.)	—	—		—
To Balance c/d		2,25,000	2,25,000	1,20,000			22,500	22,500	—
	3,52,800	2,62,500	2,62,500	1,65,000		3,52,800	2,62,500	2,62,500	1,65,000

5. Partners' Current Accounts

Dr. **Cr.**

Particulars	Ram	Shyam	Laxman	Particulars	Ram	Shyam	Laxman
	₹	₹	₹		₹	₹	₹
To Balance b/d	—	—	3,000	By Balance b/d	4,200	6,000	—
To Drawings	60,000	48,000	54,000	By Profit and loss A/c	63,600	63,600	63,600
To Capital A/c (bal. fig.)	7,800	—	—				
To Balance c/d	—	21,600	6,600				
	67,800	69,600	63,600		67,800	69,600	63,600

6. Ram' Executors' Accounts

Particulars	₹	Particulars	₹
To Cash and Bank	1,17,600	By Ram's Capital A/c	3,52,800
To Ram's Executor's Loan A/c	2,35,200		
	3,52,800		3,52,800

2017 - Nov [6] A and B were partners of a firm sharing profits and losses in the ratio 2:1.

The Balance Sheet of the firm as at 31st March, 2017 was as under:

Liabilities	Amount (₹)	Assets	Amount (₹)
<u>Capital Accounts</u>		Plant and Machinery	5,00,000
A	8,00,000	Building	9,00,000
B	4,00,000	Sundry Debtors	2,50,000
Reserves	5,25,000	Stock	3,00,000
Sundry Creditors	2,75,000	Cash	1,50,000
Bills Payable	1,00,000		
	21,00,000		**21,00,000**

They agreed to admit P and Q into the partnership on the following terms:

(i) The firm's goodwill to be valued at 2 years purchase of the weighted average of the profits of the last 3 years. The relevant figures are:
Year ended 31.3.2014 - Profit ₹ 37,000
Year ended 31.3.2015 - Profit ₹ 40,000
Year ended 31.3.2016 - Profit ₹ 45,000

(ii) The value of the stock and Plant & Machinery were to be reduced by 10%.

(iii) Building was to be valued at ₹ 10,11,000.

(iv) There was an unrecorded liability of ₹ 10,000.

(v) A,B,P & Q agreed to share profits and losses in the ratio 3:2:1:1.

(vi) The value of reserve, the values of liabilities and the values of assets other than cash were not to be altered.

(vii) P and Q were to bring Capitals equal to their shares of profit considering B's Capital as base after all adjustments.

You are required to prepare:

(1) Memorandum Revaluation Account.
(2) Partner's Capital Account and
(3) The Balance Sheet of the newly constructed firm. (16 marks)

Chapter - 16 : Accounting in Computerised Environment

2017 - May [7] (d)

It is very difficult task for an organisation to choose appropriate accounting software from the bundle of softwares available in the market. Some basic criteria should be considered while selecting the software:		
1.	**Fulfilment of business needs**	Buyers try to match their own requirement with the available softwares.
2.	**Easy to use**	Such software which is easily operative should be selected.
3.	**Provides maximum reports**	Some software packages are available in the market which might provide extra reports or such report as they want.

4.	**Goodwill of the Vendor**	A stable vendor with good past records will always be preferred because his continuous support is essential for any software.
5.	**Cost comparison**	First analyse various softwares and then select most economic software.
6.	**Regular update**	Vendor normally provides regular updates to take care of the changes of law as well as adds new features to the existing software. So, select the vendor whose past record in this context is good.

2017 - Nov [7] (a) ERP (Enterprise Resource Planning) package is gaining popularity in big organisations. Briefly explain the advantages and disadvantages of using an ERP Package. (4 marks)

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