

Roll No.

MAY 2012

IPCC
GROUP-I PAPER-1
ACCOUNTING

Total No. of Questions – 7

Total No. of Printed Pages – 12

Time Allowed – 3 Hours

Maximum Marks – 100

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Question No. 1 is compulsory.

Answer any **five** from the remaining **six** questions.

Wherever appropriate, suitable assumption/s should be made and indicated in answer by the candidate.

Working notes should form part of the answer.

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|---|--------------------------|
| 1. (a) M/s Excellent Construction Company Limited undertook a contract to construct a building for ₹ 3 Crore on 1 st September, 2011. On 31 st March, 2012 the company found that it had already spent ₹ 1 Crore 80 Lakhs on the construction. Prudent estimate of additional cost for completion was ₹ 1 Crore 40 Lakhs. What amount should be charged, to revenue in the final accounts for the year ended on 31 st March, 2012, as per the provisions of Accounting Standard 7 “Construction Contracts (Revised)” ? | 4×5
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5 |

- (b) M/s Innovative Garments Manufacturing Company Limited invested in the shares of another company on 1st October, 2011 at a cost of ₹ 2,50,000. It also earlier purchased Gold of ₹ 4,00,000 and Silver of ₹ 2,00,000 on 1st March, 2009. Market value as on 31st March, 2012 of above investments are as follows :

	₹
Shares	2,25,000
Gold	6,00,000
Silver	3,50,000

How above investments will be shown in the books of accounts of M/s Innovative Garments Manufacturing Company Limited for the year ending 31st March, 2012 as per the provisions of Accounting Standard 13 "Accounting for Investments" ?

- (c) M/s Progressive Company Limited has not charged depreciation for the year ended on 31st March, 2012, in respect of a spare bus purchased during the financial year 2011-12 and kept ready by the company for use as a stand-by, on the ground that, it was not actually used during the year. State your views with reference to Accounting Standard 6 "Depreciation Accounting".

Further during the year company made additions to its factory by using its own workforce, at a cost of ₹ 4,50,000 as wages and materials. The lowest estimate from an outside contractor to carry out the same work was ₹ 6,00,000. The directors contend that, since they are fully entitled to employ an outside contractor, it is reasonable to debit the Factory Building Account with ₹ 6,00,000. Comment whether the directors' contention is right in view of the provisions of Accounting Standard 10 "Accounting for Fixed Assets" ?

- (d) Briefly explain the types of Amalgamations ?

2. M/s Platinum 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, 2012 before reconstruction :

Liabilities	Amount (₹)	Assets	Amount (₹)
<u>Share Capital</u>			
50,000 shares of ₹ 50 each fully paid up	25,00,000	Goodwill	22,00,000
1,00,000 shares of ₹ 50 each ₹ 40 paid up	40,00,000	Land & Building	42,70,000
Capital Reserve	5,00,000	Machinery	8,50,000
8% Debentures of ₹ 100 each	4,00,000	Computers	5,20,000
12% Debentures of ₹ 100 each	6,00,000	Stock	3,20,000
Trade Creditors	12,40,000	Trade Debtors	10,90,000
Outstanding Expenses	10,60,000	Cash at Bank	2,68,000
		Profit & Loss Account	7,82,000
Total	1,03,00,000	Total	1,03,00,000

Following is the interest of Mr. Shiv and Mr. Ganesh in M/s Platinum Limited:

	<u>Mr. Shiv</u>	<u>Mr. Ganesh</u>
8% Debentures	3,00,000	1,00,000
12% Debentures	4,00,000	2,00,000
Total	7,00,000	3,00,000

The following scheme of internal reconstruction was framed and implemented, as approved by the court and concerned parties :

- (1) Uncalled capital is to be called up in full and then all the shares to be converted into Equity Shares of ₹ 40 each.

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- (2) The existing shareholders agree to subscribe in cash, fully paid up equity shares of ₹ 40 each for ₹ 12,50,000.
- (3) Trade Creditors are given option of either to accept fully paid equity shares of ₹ 40 each for the amount due to them or to accept 70% of the amount due to them in cash in full settlement of their claim. Trade Creditors for ₹ 7,50,000 accept equity shares and rest of them opted for cash towards full and final settlement of their claim.
- (4) Mr. Shiv agrees to cancel debenture amounting to ₹ 2,00,000 out of total debentures due to him and agree to accept 15% Debentures for the balance amount due. He also agree to subscribe further 15% Debentures in cash amounting to ₹ 1,00,000.
- (5) Mr. Ganesh agrees to cancel debenture amounting to ₹ 50,000 out of total debentures due to him and agree to accept 15% Debentures for the balance amount due.
- (6) Land & Building to be revalued at ₹ 51,84,000, Machinery at ₹ 7,20,000, Computers at ₹ 4,00,000, Stock at ₹ 3,50,000 and Trade Debtors at 10% less to as they are appearing in Balance Sheet as above.
- (7) Outstanding Expenses are fully paid in cash.
- (8) Goodwill and Profit & Loss A/c will be written off and balance, if any, of Capital Reduction A/c will be adjusted against Capital Reserve.

You are required to pass necessary Journal Entries for all the above transactions and draft the company's Balance Sheet immediately after the reconstruction.

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3. (a) M/s Ice Limited gives you the following information to find out Total Sales and Total Purchases : 8

Particulars	Amount (₹)
Debtors as on 01.04.2011	70,000
Creditors as on 01.04.2011	81,000
Bills Receivables received during the year	47,000
Bills Payable issued during the year	53,000
Cash received from customers	1,56,000
Cash paid to suppliers	1,72,000
Bad Debts recovered	16,000
Bills Receivables endorsed to creditors	27,000
Bills Receivables dishonoured by customers	5,000
Discount allowed by suppliers	7,000
Discount allowed to customers	9,000
Endorsed Bills Receivables dishonoured	3,000
Sales Return	11,000
Bills Receivable discounted	8,000
Discounted Bills Receivable dishonoured	2,000
Cash Sales	1,68,500
Cash Purchases	1,97,800
Debtors as on 31.03.2012	82,000
Creditors as on 31.03.2012	95,000

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- (b) Good, Better and Best are in partnership sharing profits and losses in the ratio 3 : 2 : 4. Their capital account balances as on 31st March, 2012 are as follows :

	₹
Good	1,70,000 (Cr)
Better	1,10,000 (Cr)
Best	1,22,000 (Cr)

Following further information provided:

- (1) ₹ 22,240 is to be transferred to General Reserve.
- (2) Good, Better and Best are paid monthly salary in cash amounting to ₹ 2,400, ₹ 1,600 and ₹ 1,800 respectively.
- (3) Partners are allowed interest on their closing capital balance @6% p.a. and are charged interest on drawings @ 8% p.a.
- (4) Good and Best are entitled to commission @ 8% and 10% respectively of the net profit before making any appropriation.
- (5) Better is entitled to commission @ 15% of the net profit before charging Interest on Drawings but after making all other appropriations.
- (6) During the year Good withdraw ₹ 2,000 at the beginning of every month, Better ₹ 1,750 at the end of every month and Best ₹ 1,250 at the middle of every month.
- (7) Firm's Accountant is entitled to a salary of ₹ 2,000 per month and a commission of 12% of net profit after charging such commission.

The Net Profit of the firm for the year ended on 31st March, 2012 before providing for any of the above adjustments was ₹ 2,76,000.

You are required to prepare Profit and Loss Appropriation Account for the year ended on 31st March, 2012.

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4. From the following Income & Expenditure A/c of Premium Sports Club for the year ended 31st March, 2012, you are required to prepare Receipts & Payment A/c for the year ended 31st March, 2012 and Balance Sheet as on that date :

Expenditure	Amount (₹)	Income	Amount (₹)
To Salaries	1,18,800	By Subscriptions	4,20,000
To Rent	2,16,000	By Entrance Fee	1,20,000
To Printing & Stationery	28,000	By Profit on sale of Sports	
To Postage & Telephone	41,600	Material	5,500
To Membership Fee	3,200	By Interest on 8%	
To Electricity Charges	38,500	Government Bonds	12,000
To Garden Upkeep	19,300	By Sale of Old Newspaper	11,600
To Sports Material Utilized	62,800		
To Repairs & Maintenance	18,700		
To Depreciation	13,000		
To Miscellaneous Expenses	5,700		
To Surplus carried to Capital			
Fund	3,500		
Total	5,69,100	Total	5,69,100

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The following additional information is provided to you :

(a)	Balances as on 01.04.2011	Balances as on 31.03.2012
Fixed Assets	2,40,000	?
Bank Balance	8,300	?
Stock of Sports Material	43,450	35,670
Outstanding Subscription	10,200	5,700
Subscription received in advance	2,400	4,900
8% Government Bonds	1,50,000	1,50,000
Outstanding Salaries	16,000	14,300
Outstanding Rent	21,000	15,000
Advance for Stationery	1,350	1,550
Outstanding Repairs & Maintenance	1,200	Nil
Creditors for purchase of Sports Material	3,400	4,200

- (b) Some of Fixed Assets were purchased on 01.10.2011 and depreciation is to be charged @ 5% p.a.
- (c) Sports Material worth ₹ 72,000 was purchased on credit during the year.
- (d) The Club became member of State Table Tennis Association on 01.01.2012 when it paid fee up to 31.12.2012.
- (e) 50% of Entrance Fee is to be capitalized.
- (f) Interest on 8% Government Bonds was received for two quarters only.
- (g) A Fixed Deposit of ₹ 80,000 was made on 31st March, 2012.

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5. (a) M/s Multistore Limited sells goods both on cash and hire purchase basis and record hire-purchase transactions on "Stock and Debtors System". It closes its books of accounts on 31st March every year. On 1st May, 2011, it sold to Manas a Scooter and a LCD TV. 8

The other information are as follows :

Particulars	Scooter	LCD TV
Cost Price	30,000	40,000
Down Payment	5,000	6,000
Number of Installments Payable	12	6
Amount of each Installment	2,800	7,600
Mode of Payment	Monthly	Quarterly
1 st Installment due on	1 st June, 2011	1 st July, 2011

Manas paid all the installments due except for those due on 1st January, 2012. It was decided that M/s Multistore Limited will take back Scooter at an agreed price of ₹ 22,000 and excess amount, if any, will be adjusted against the installments due of LCD TV.

Scooter repossessed was sold for ₹ 24,500 after incurring repair charges of ₹ 1,000.

Prepare necessary ledger accounts to record the above transactions and find out the profit.

(b) Mr. Brown has made following transactions during the financial year 2011-12 : 8

Date	Particulars
01.05.2011	Purchased 24,000 12% Bonds of ₹ 100 each at ₹ 84 cum-interest. Interest is payable on 30 th September and 31 st March every year.
15.06.2011	Purchased 1,50,000 equity shares of ₹ 10 each in Alpha Limited for ₹ 25 each through a broker, who charged brokerage @ 2%.
10.07.2011	Purchased 60,000 equity shares of ₹ 10 each in Beeta Limited for ₹ 44 each through a broker, who charged brokerage @ 2%.
14.10.2011	Alpha Limited made a bonus issue of two shares for every three shares held.
31.10.2011	Sold 80,000 shares in Alpha Limited for ₹ 22 each.
01.01.2012	Received 15% interim dividend on equity shares of Alpha Limited.
15.01.2012	Beeta Limited made a right issue of one equity share for every four shares held at ₹ 5 per share. Mr. Brown exercised his option for 40% of his entitlements and sold the balance rights in the market at ₹ 2.25 per share.
01.03.2012	Sold 15,000 12% Bonds at ₹ 90 ex-interest.
15.03.2012	Received 18% interim dividend on equity shares of Beeta Limited.

Interest on 12% Bonds was duly received on due dates.

Prepare separate investment account for 12% Bonds, Equity Shares of Alpha Limited and Equity Shares of Beeta Limited in the books of Mr. Brown for the year ended on 31st March, 2012.

5. Ramda & Sons had taken out policies (without Average Clause) both against loss of stock and loss of profit, for ₹ 2,10,000 and ₹ 3,20,000 respectively. A fire occurred on 1st July, 2011 and as a result of which sales were seriously affected for a period of 3 months. 16

Trading and Profit & Loss A/c of Ramda & Sons for the year ended on 31st March, 2011 is given below:

Particulars	Amount (₹)	Particulars	Amount (₹)
To Opening Stock	96,000	By Sales	12,00,000
To Purchases	7,56,000	By Closing Stock	1,85,000
To Wages	1,58,000		
To Manufacturing Expenses	75,000		
To Gross Profit c/d	3,00,000		
Total	13,85,000	Total	13,85,000
To Administrative Expenses	83,600	By Gross Profit b/d	3,00,000
To Selling Expenses (Fixed)	72,400		
To Commission on Sales	34,200		
To Carriage Outward	49,800		
To Net Profit	60,000		
Total	3,00,000	Total	3,00,000

Further detail provided is as below:

- (a) Sales, Purchases, Wages and Manufacturing Expenses for the period 01.04.2011 to 30.06.2011 were ₹ 3,36,000, ₹ 2,14,000, ₹ 51,000 and ₹ 12,000 respectively.
- (b) Other Sales figure were as follows :
- | | ₹ |
|-------------------------------|----------|
| From 01.04.2010 to 30.06.2010 | 3,00,000 |
| From 01.07.2010 to 30.09.2010 | 3,20,000 |
| From 01.07.2011 to 30.09.2011 | 48,000 |
- (c) Due to decrease in the material cost, Gross Profit during 2011-12 was expected to increase by 5% on sales.
- (d) ₹ 1,98,000 were additionally incurred during the period after fire. The amount of policy included ₹ 1,56,000 for expenses leaving ₹ 42,000 uncovered.
- Compute the claim for stock, loss of profit and additional expenses.

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7. Answer any **FOUR** out of the following :

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- (a) M/s Stairs & Co. draw upon M/s Marble & Co. several bills of exchange due for payment on different dates as under :

<u>Date of Bill</u>	<u>Amount (₹)</u>	<u>Tenure of Bill</u>
12 th May	44,000	3 months
10 th June	45,000	4 months
1 st July	14,000	1 month
19 th July	17,000	2 months

Find out the average due date on which payment may be made in one single amount by M/s Marble & Co. to M/s Stairs & Co. 15th August, Independence Day, is national holiday and 22nd September declared emergency holiday, due to death of a national leader.

- (b) X, Y and Z are partners sharing profits and losses equally. On 1st December, 2011 Z retired from the partnership firm. The capitals of the partners, after all necessary adjustments stood at ₹ 45,000, ₹ 75,000 and ₹ 50,000 respectively. X and Y continued to carry on the business without settling the accounts of Z. Final payment to Z made on 1st March, 2012. The partnership firm made profit amounting to ₹ 30,000 during the period from 1st December, 2011 to 29th February, 2012.

What are the rights of Z to share subsequent profit as per the provisions of Section 37 of the Indian Partnership Act ?

- (c) A computer costing ₹ 60,000 is depreciated on straight line basis, assuming 10 years working life and Nil residual value, for three years. The estimate of remaining useful life after third year was reassessed at 5 years. Calculate depreciation as per the provisions of Accounting Standard 6 "Depreciation Accounting".
- (d) What are the maximum limits of managerial remuneration for companies having adequate profits?
- (e) "ERP package is gaining popularity in big organizations." Briefly explain the advantages of using an ERP package, in the light of above statement.

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