Solved Scanner Appendix

IPCC Gr. I

(Solution of November - 2014)

Paper - 1 : Accounting

Chapter - 1: Accounting Standards

2014 - Nov [1] {C}(a), (b), ©), (d)

(a) **Plant & Machinery A/c**

Particulars	Amount	Particulars	Amount
To Bal. b/d	6,32,000	By Bank (disposal)	1,75,000
To Bank(Purchase)	1,20,000	By P & L (loss)	14,000
To Bank (Exchange)	2,56,000	By Bank	67,000
		By Dep^n W.N.2)	1,79,462
		By Bal. c/d	5,72,538
	10,08,000		10,08,000

Working Note:

1. Calculation of dep^n

   WDV as on 1/4/13 = 6,32,000

   \+ Addition (1/6) = 1,20,000

   7,52,000

   Depreciation till 31/5 = 6,32,000 × 20% × $\frac{2}{12}$ = 21,067

   Depreciation from 1/6 to 30/6 = (6,32,000 - 21,067) + 1,20,000 × 20% × $\frac{1}{12}$ = 12,182

   Depreciation from 1/7 to 31/3 = (6,32,000 - 21,067 + 1,20,000 + 2,56,000) × 20% × $\frac{9}{12}$ = 1,48,040

   (I) Depreciation to be charged in P&L = ₹ 1,79,462

   (ii) Book value of P&M A/c as on 31/3/14 = ₹ 5,72,538

   (iii) Loss on Exchange of Machinery = ₹ 67,000

(b) ⇒ As per AS-9 Revenue Recognition, the revenue to be recognised in P&L A/c when the right to establish the revenue is certain.

⇒ In this case, the amount of ₹ 2,40,000 is recognised in P&L of F.Y. 2013-14 because there is right to recognition of it and the balance ₹ 60,000 will be recognise in 2014-15 as this revenue is to be recognised within 30 days of publication.

⇒ If the full advertise is published in 2/4/14 then full amount of revenue to be recognised in F.Y. 2014-15.

©) ⇒ As per provision of AS-2, the amount of normal loss to be included in the cost of product. Any amount of abnormal loss to be charged to P&L A/c.

⇒ Here, there is 4% of normal loss in production, during the year 2013-14 company uses 12,000 MT of R.M., there is 630 MT loss in production.
So as, 4% of 12,000 i.e. 480 MT amt. of loss to be charged to in cost of raw material. And 150 MT of R.M. to be charged to P&L A/c.

⇒ Hence, amount of Normal loss and Abnormal loss to be calculated as follows:

		₹
Normal loss = 480 MT × 150 per MT	=	72,000
		to be added in cost of R.M.
Abnormal loss = 150 MT × 150 per MT	=	22,500
		to be charged to P&L A/c

(d) (I) As per provisions of AS-13, whenever there is re-classification of investment, as long term investments are re-classified as current investments then transfer are made at lower of cost and carrying amount at the date of transfer.

⇒ Here, cost of investment is ₹ 8.5 lakhs and carrying value as on date of transfer is ₹ 6.5 lakhs. Then, investment is valued at ₹ 6.5 lakhs on re-classification.

(ii) As, on re-classification from long term investment to current investment than it is recognised lower of cost and carrying value on transfer date.

⇒ Here, long term investment in Company B to be re-classified as current cost of investment is ₹ 7 lakhs and carrying value is ₹ 7 lakhs. Then investment is re-classified as ₹ 7 lakhs which is lower of cost and fair value.

(iii) As per AS-13, when there is re-classification of investment from current to long term investments then valuation is to be done lower of cost and fair value at the date of transfer.

⇒ Here, invt. in Company C shall be re-classified as long term. The cost of investment is ₹ 10 and fair value on transfer date is ₹ 12 lakhs. Then investment is valued at ₹ 10 lakhs which is lower of cost and fair value.

(iv) As per AS-13, when there is re-classification of investment from current to long term investments then valuation is to be done on lower of cost and fair value at the date of transfer.

⇒ Here investment in Company D shall be re-classified as long term. The cost of invt. is ₹ 15 lakhs and fair value on transfer date is ₹ 14 lakhs. Then investment is valued of ₹ 14 lakhs which is lower of cost and fair value.

2014 - Nov [7] (a)

⇒ As per provision of the AS-10 the routine repairs which is done to maintain regular efficiency of machine is to be charged to P&L A/c. So ₹ 5 lakhs to be charged to P&L A/c.

⇒ Replacement Cost on replacement should be capitalised. So ₹ 1 lakh to be added in the cost of machine.

⇒ Expense for improvement of efficiency of machine to be charged to cost of machine. So ₹ 10 lakhs to be added in cost of machine.

Chapter - 2: Company Accounts — Preparation of Financial Statements

2014 - Nov [3] (b)

In the books of Elegant Ltd.
Balance Sheet as on 31 March, 2014

Particulars	Note	Amount
Equity & Liabilities		
(1) Shareholder's fund		
(a) Share Capital	1	50,00,000
(b) Reserves & Surplus	2	15,50,000
(c) Application money recd.		
(2) Share application pending a/c		
(3) Non current liabilities		
(a) Long term borrowings	3	13,55,000
(b) DTL		
(c) Other Long Term liabilities		
(d) Long term provisions		
(4) Current liabilities		
(a) Short term borrowings		
(b) Trade payables	4	10,00,000
(c) Other current liabilities		
(d) Short term provisions	5	6,40,000
Total		**95,45,000**

Assets		
(1) Non current Assets		
(a) Fixed Asset		
(i) Tangible Fixed Assets		
(ii) Intangible Fixed Assets	6	56,25,000
(b) Non-current investments		
(c) DTA		
(d) Long term loans & Adv.		
(e) Other non current assets		
(2) Current Assets		
(a) Current investments		
(b) Inventories	7	12,50,000
(c) Trade receivables	8	12,13,500
(d) Cash & Cash Eq.	9	13,85,000
(e) Short term loans & Adv.		5,000
(f) Other CA		
Misc. Exp.	10	66,500
Total		**95,45,000**

Working Notes :

1.	Share Capital	
	Authorised, issued, subscribed & paid up capital	
	= 50,000 equity share of 100 each	
	= 50,000 × 100	50,00,000
	(Out of share of 50,000, equity share no. of 10,000	
	has been issued for a consideration other than cash)	50,00,000
2.	Reserves & Surplus	
	General Reserve	10,50,000
	P&L A/c	5,00,000
		15,50,000
3.	Long term borrowing	
	Loan from state financial corp.	7,12,500
	(This loan is hypothecated against Plant & Machinery)	37,500
	Accrued interest unsecured loan	6,05,000
		13,55,000
4.	Trade Payables	10,00,000
	Sundry Creditors	10,00,000

5. Short term provisions									
Provisions for Taxation									3,40,000
Proposed dividend									3,00,000
									6,40,000
6. Tangible Fixed Asset									
	Cost				Dep^n				Net block
	Op.	Add	Del.	Cl.	Op.	Add.	Del.	Cl.	Closing
Building	30 L	-	-	30 L	2.5 L	-	-	2.5 L	27.5 L
P&M	35 L	-	-	35 L	8.75 L	-	-	8.75 L	26.25 L
Purchase	3,12,500	-	-	3,12,500	62,500	-	-	62,500	2,50,000
									56,25,000
7. Inventories									
Raw Materials									2,50,000
Finished goods									10,00,000
									12,50,000
8. Trade receivables									
Debtors									10,00,000
Advances									2,13,500
									12,13,500
9. Cash & Cash Equivalents									
Cash in hand									1,50,000
Cash at Bank									
Scheduled Bank									12,25,000
Global Bank Ltd.									10,000
									13,85,000
10. Misc. Exp.									
Preliminary Exp.									66,500
									66,500

Chapter - 3: Cash Flow Statement

2014 - Nov [3] (a)

In the books of Gamma Ltd.
Cash Flow Statement

Particulars	Amount (in ₹)	Amount (in ₹)
Cash from operating activities		
Cash Sales	81	
Receipts from customers	49	
(-) Cash purchases	(11)	

(-) Payment to creditors	(42)	
(-) Admin. & Sal. Exp.	(40)	
	37	
(-) Tax paid	(8)	29
Cash from investing activities		
Sale of investment	14.4	
Plant & Machinery purchase	(11)	3.4
Cash from financing activities		
(-) Redemption of Debenture	(7)	
(-) Interest on Debenture	(1.5)	
(-) Dividend paid	(10)	
(-) Dividend Distribution Tax	(1.7)	(20.2)
Balance		12.2
+ Opening Bank		6
Closing balance of bank		18.2

Working Note:

1. Calculation of Receipt from Customer

Debtors A/c

Particulars	Amount	Particulars	Amount
To Balance b/d	45	By Bank	49
To Sales	54	By Balance c/d	50
Total	**99**	**Total**	**99**

2. Calculation of Payment to Creditors

Creditors A/c

Particulars	Amount	Particulars	Amount
To C/B	42	By Balance	21
To Balance	23	By Purchase	44
Total	**65**	**Total**	**65**

Chapter - 6: Accounting for Business Acquisition, Amalgamation and Reconstruction
2014 - Nov [4] (a)

In the books of Vaibhav Ltd.
Journal Entries

	Particulars	L.F.	Dr. Amt.	Cr. Amt.
1.	Equity Share Capital A/c Dr.(₹ 100)		2,00,00,000	
	To Eq. Share Capital (₹ 40)			80,00,000
	To Capital Red^{n}.			1,20,00,000
	(Being F.A. Capital each share red to 40)			
2.	6% Pref. Sh. Capital A/c Dr. (100)		1,00,00,000	
	To 6% Pref. Sh. (60)			60,00,000
	To Capital Reduction			40,00,000
	(Being Pref. Sh. red. to 60)			
3.	5% Debenture A/c (100) Dr.		80,00,000	
	To 6% Debenture (70)			56,00,000
	To Capital Reduction			24,00,000
	(Being deb. rate red. 6%)			
4.	Capital Reduction A/c Dr.		50,00,000	
	To Fixed Assets			50,00,000
	(Being F.A. reduced by 20%).			
5.	Capital Reduction A/c Dr.		1,10,00,000	
	To Current Asset			1,10,00,000
	(Being Current Asset reduced)			
6.	Capital Reduction A/c Dr.		1,00,000	
	To Investments			1,00,000
	(Being investment revalued)			
7.	Creditor A/c Dr.		40,00,000	
	To Capital Reduction			16,00,000
	To Eq. Share Capital (40)			24,00,000
	(Being Creditor settled)			
8.	Provision for Taxation A/c Dr.		2,00,000	
	Capital Reduction A/c Dr.		1,00,000	
	To C/B			3,00,000
	(Being Tax paid)			
9.	Capital Reduction A/c Dr.		12,00,000	
	To P&L			12,00,000
	(Being P&L Written off)			

10.	Capital Reduction A/c Dr. To Capital Reserve (Being Amt. of Cap. Red^{n}. trans. to Capital Reserve)		26,00,000	 26,00,000

In the books of Vaibhav Ltd.
Balance Sheet as at 31.3.02
(And reduced to...)

Equity & Liabilities		
1. Shareholder's Fund		
(a) Share Capital	1	1,64,00,000
(b) Reserves & Surplus	2	26,00,000
2. Non current liabilities		
(a) Long term borrowings	3	56,00,000
3. Current liabilities		
(a) Trade Payables	4	60,00,000
		3,06,00,000
2. Assets		
1. Non Current Asset		
(a) Fixed Assets		
(i) Tangible Fixed Assets	5	2,00,00,000
(ii) Intangible Fixed Assets		
(b) Non current investments		19,00,000
2. Current Assets	6	87,00,000
		3,06,00,000

Notes:		
1. Share Capital		
Authorised, Issued, Subscribed & Paidup		
(i) Equity Share Capital		
2,00,000 share of 40 each	80,00,000	
60,000 share of 40	24,00,000	1,04,00,000
(ii) Preference Shares		
6% Pref share		
1,00,000 share of 60		60,00,000
		1,64,00,000

2. Reserves & Surplus			
	Capital Reserve		26,00,000
			26,00,000
3. Long Term Borrowings			
	6% debentures		56,00,000
	(80,000 deb. of 70 each)		
			56,00,000
4. Trade Payables			
	Creditors	1,00,00,000	
	(-) Shattled	(40,00,000)	60,00,000
			60,00,000
5. F.A.			
	Fixed Asset.	2,50,00,000	
	(-) written down	(50,00,000)	2,00,00,000
			2,00,00,000
6. CA	90,00,000 - 7,00,000		83,00,000

Chapter - 7:Average Due Date

2014 - Nov [7] (e)

Calculation of Avg. due date

Sale Date	Add	Date	Amt.	Days	Product
26/5	10	5/6	12,000	0	-
18/7	10	28/7	18,000	53	9,54,000
21/8	10	12/8	16,500	68	11,22,000
28/8	10	7/9	9,500	94	8,93,000
9/9	10	19/9	15,500	106	16,43,000
17/9	10	27/9	13,500	114	15,39,000
			85,000		61,51,000

Add = Base date + $\frac{Product}{Amt.}$

= 2,615 + $\frac{61,51,000}{85,000}$

= 2,615 + 72 days

Average due date = 6th Sept.

Interest = ₹ 85,000 x $\frac{12}{100}$ x $\frac{24}{365}$

Interest = ₹ 670.68

If he want to save interest of ₹ 588 than date will be as follows

Interest = ₹ 671 - 588

Interest = ₹ 83.

Interest = $85{,}000 \times \frac{12}{100} \times \frac{Days}{365}$

$83 = 85{,}000 \times \frac{12}{100} \times \frac{Days}{365}$

$\frac{83 \times 100 \times 365}{85{,}000 \times 12}$ = Days

$= \frac{30{,}29{,}500}{10{,}20{,}000}$

date = 3 days.

If he want to save interest of ₹ 588 than he will have to make payment 3 days before 30/9.

i.e. on 27th of September, 2014.

Chapter - 8: Account Current

2014 - Nov [7] (d)

In the books of Mr. Ram

Current Account

Date	Particulars	₹	DD	Days	Product	Date	Particulars	₹	DD	Days	Product
1/7	To Balance	750	1/7	123	92,250	20/8	By Return	200	20/8	72	14,400
15/8	To Sales	1,250	15/8	77	96,250	22/9	By Bank	800	22/9	39	31,200
						15/10	By Cash	500	15/10	16	8,000
							By Bal.	500			1,34,900
		2,000			1,88,500			2,000			1,88,500

Interest = $1{,}34{,}900 \times \frac{5}{100} \times \frac{1}{365}$

Interest = ₹ 18.48.

Chapter - 9: Self Balancing Ledgers

2014 - Nov [4] (b)

In the books of Sathish

General ledger of Mr. Sathish

Creditor ledger adjustment A/c

Particulars	Amt.	Particulars	Amt.
To Bal. b/d (Advance)	4,500	By Opening bal.	—
To General led adj.		By General ledger adj	

	Bank (Akash)	3,000	Purchase	
	Bank (Dev)	2,500	Akash	7,500
	Bank (Adv. to Giri)	6,000	Akash	6,200
	Return	1,000	Giridhar	6,000
	Bank (Akash)	4,940	Natram	3,500
	disc	260		
To	Bal. C/d	1,000		
		23,200		23,200

Note:

1. Goods returned to Mr. Prem ₹ 1,200 will not be entered in creditor ledger adj. because it is cash purchase.

Chapter - 10: Financial Statements of Not for Profit Organisations

2014 - Nov [2]

In the books of Country Sports Club
Receipts & Payment A/c

	Receipts		Amount		Payment		Amount
To	Balance b/d			By	Salaries	3,36,000	
	Bank		54,500		(+) Paid in ad. (C.Y.)	28,000	
To	Prize fund		36,000				
To	Subscription (W.N.1)		8,84,000		(-) Paid in ad. (C.Y.)	(32,000)	3,32,000
To	Receipt of Sports		3,25,000	By	Repairs	88,000	
To	Entrance fees		2,40,000		(-) O/S (C.Y.)	(24,500)	
To	Int. on bound	12,000			(+) O/S (C.Y.)	13,500	77,000
	(-) Not received	(3,000)	9,000	By	Ground up		1,66,500
To	Rent		84,000	By	Electricity		82,600
To	Sale of Paper		3,500	By	Printing & Sta.		42,200
To	Sale of Mat		28,500	By	Groundsman wages		80,000
				By	Prize distributed		40,000
				By	Exp. for receipts		2,75,000
				By	F.A. purchased		2,20,000
				By	Sport Mat. Pur.		45,000
				By	Creditors for Sports Material		1,51,100
				By	Bal. c/d		1,53,100
			16,64,500				16,64,500

Balance Sheet as on 31.3.14

Liabilities		**Amount**	**Asset**	**Amount**
Capital fund	9,33,400		F.A.	7,20,000
(+) Surplus	96,700	10,30,100	Invt. in 10% bond	1,20,000
Prize fund		2,40,000	Prize fund invt.	2,36,000
Entrance fees		60,000	Stock for Sports Material	1,38,000
O/S Repairs Exp.		24,500	Int. on bond	6,000
Subscription rec. in adv.		72,000	Salaries paid in adv.	28,000
Creditor for Sport Mat.		62,500	O/S subscription	88,000
			Bank	1,53,100
		14,89,100		14,89,100

Working Note:

1. Calculation of Prize Distribution Exp.:
   Prize fund income = 36,000
   Prize fund distributed = 40,000
2. Calculation of subscription:

Subscription earned during year	=	8,40,000
(+) received in advance (C.Y.)	=	72,000
(-) received in advance (C.Y.)		(64,000)
+ O/S (C.Y.)		1,24,000
- O/S (C.Y.)		(88,000)
Subscription received during year	=	8,84,000

3. Calculation of Sports Material:

Stock of Sports Material

Particulars	**Amount**	**Particulars**	**Amount**
To Bal. b/d	1,24,000	By Stock Consumed	1,48,000
To Bank	45,000	By Bank	28,500
To Creditors for Sports	1,35,000	By Balance	1,38,000
To Profit on sale	10,500		
	3,14,500		3,14,500

Creditors for Sports Material

Particulars	**Amount**	**Particulars**	**Amount**
To Bank	1,51,100	By Balance	78,600
To Balance c/d	62,500	By Stock	1,35,000
	2,13,600		2,13,600

4. **Balance Sheet as at 31.3.13**

Liabilities	Amount	Asset	Amount
Capital fund	9,33,400	Interest Accrued	3,000
Prize fund	2,40,000	Fixed Assets	6,36,000
Creditors for Sport Material	78,600	Stock	1,24,000
O/S repairs	13,500	Invt. in bond	1,20,000
Sub. in adv.	64,000	O/S Subscription	1,24,000
		Salary paid in adv.	32,000
		Prize fund	2,36,000
		Bank	54,500
	13,29,500		13,29,500

Chapter - 12: Hire Purchase and Instalment Sale Transactions

2014 - Nov [7] ©)

Difference between Hire Purchase & Installment System

(1) **Hire Purchase:**

⇒ Hire Purchase sale is an arrangement whereby vendor delivers possession to the buyer against the price to be paid in instalment over an agreed period together with interest.

⇒ The ownership passes to the buyer on payment of last instalment. In case of default in payment the vendor has right to repossess the goods.

⇒ The vendor has legal right for the instalments, which has already fallen due before repossession, but unless otherwise specified in the question, while solving problems we consider it as bad debt.

⇒ Buyer is not liable for the instalments which has not yet fallen due if he returns the goods.

⇒ Looking to the nature of hire purchase transaction, we can conclude that for the buyer goods so purchased will be in the nature of fixed Assets & not goods for resale or consumables.

(2) **Instalment Sale:**

⇒ In the instalment system of sale the possession as well ownership immediately passes to the buyer.

⇒ The buyer makes the payment by instalment including interest.

⇒ If buyer fails to pay the instalment the vendor cannot repossess the goods but will have to file the suit in the court for recovery of payment.

Chapter - 13: Investment Accounts

2014 - Nov [5] (b)

In the books of Hasan Ltd.

Investment A/c for Eq. Shares

Particular	BV (Cost)	FV	Particular	BV(Cost)	FV
To Bal. b/d	4,00,000	2,00,000	By Bank	7,500	25,000
To Bank	75,000	50,000			
To Bonus	50,000	50,000			
To Right issue	1,50,000	1,00,000			
			By Bal. c/d	6,67,500	3,75,000
	6,75,000	4,00,000		6,75,000	4,00,000

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

2014 - Nov [5] (a)

In the books of M/s Kailash & Co.

Calculation of amount of claim:

Stock as on date of fire	1,41,500
(-) salvage value	(27,000)
Loss	1,14,500

Avg. clause is applicable so,

$$\text{Claim} = \frac{\textit{Loss}}{\textit{Estimated stock}} \times \text{Policy Amount}$$

$$= \frac{1,14,500}{1,41,500} \times 75,000$$

Claim of stock = ₹ 60,689

Working Note:

Memo. Trading A/c

	Particular		Amount	Particular		Amount
1.	To Op. Stock		1,20,000	By	Sales	3,10,000
	To Purchase		2,40,000	By	Goods taken (Draw)	3,10,000
	To Wages	75,000		By	Goods sent to consignee	18,000
	(-) for machines	(5,000)	70,000	By	Goods sent freely	2,500
	To G.P.		62,000	By	C/S	1,41,500
			4,92,000			**4,92,000**

Note:

1. Wages paid for installation is not part of wages charged to P&L A/c, it to be included in the cost of machinery.
2. Goods drawing = 25,000 x $\frac{1}{5}$ = Cost = 20,000.

Chapter - 15: Introduction to Partnership Accounts

2014 - Nov [6]

In the books of Partners Capital A/c

Particulars	Anuj	Ayush	Piyush	Particulars	Anuj	Ayush	Piyush
To Ayush	26,067	-	-	By Bal.	3,75,000	2,80,000	2,25,000
To Piyush	78,202	-	-	By GR	75,200	75,200	37,600
To FD	2,25,000	-	-				
To Int.	9,000			By Anuj	26,067	78,202	-
To Cash	-	1,53,402	37,600				
To Loan	1,37,998						
To Bal.	-	2,80,000	2,25,000				
Total	4,76,267	4,33,402	2,62,600		4,76,267	4,33,402	2,62,600

Balance Sheet as at 1.4.14

Liabilities		Amount (₹)	Assets		Amount (₹)
Capital Ayush	2,80,000		Plant	7,87,000	
Piyush	2,25,000	5,05,000	(-) Dep.	(78,700)	7,08,300
Creditors		2,26,000	Stock	1,03,000	
			Written off	(6,000)	97,000
Loan from Anuj		1,37,998	Debtors	1,56,000	
			Provision	(7,800)	1,48,200
			Bank		1,50,000
			Cash		28,002
		8,68,998			8,68,998

Working Note:

1. Calculation of goodwill:

Goodwill $= \frac{3,30,000 + 2,32,000 + 2,20,000}{3}$

= 2,60,667 x 1

Goodwill = 2,60,667

entry raised = Goodwill A/c			Dr.	2,60,667	
	To	Anuj			1,04,267
	To	Ayush			1,04,267
	To	Piyush			52,133
W/off. Ayush			1,30,333		
Piyush			1,30,336		
	To	Goodwill		2,60,667	

Direct entry:

Ayush Cap. A/c	Dr.	26,067
Piyush Cap. A/c	Dr.	78,203

Chapter - 16: Accounting in computerised Environment

2014 - Nov [7] (b)

Advantages of customised accounting software:

⇒ It covers specific functional areas

⇒ Input screen can be as per input documents

⇒ Reports generated as per specific requirements

⇒ Selection of input devices as per entity's choice.

✿