IPCC

Roll No. .... GROUP-I PAPER-1

ACCOUNTING

MAY 2013

Total No. of Questions – **7**

Total No. of Printed Pages – **15**

Time Allowed – **3** Hours

Maximum Marks – **100**

CZE

Answers to questions are to be given only in English except in the case of candidates who have opted for Hindi Medium. If a candidate has not opted for Hindi Medium, his answers in Hindi will not be valued.

Question No. 1 is compulsory.

Candidates are also required to answer any five questions 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.

Marks

1. (a) M/s. Zed Laptop Co. has a hire-purchase department and goods are sold on hire-purchase adding 25% to cost. From the following information (all figures are at hire-purchase price), prepare Hire-Purchase Trading Account for the year ending March 31, 2013 : **4×5 =20** **5**

	₹
April 01, 2012 goods with customers (Instalments not yet due)	80,000
Goods sold on Hire-purchase during the year	4,00,000
Cash received during the year from customers	3,00,000
Instalments due but not yet received at the end of the year, customers paying	10,000

Marks

(b) M/s. Big Systematic Ltd. maintains self-balancing ledgers preparing control accounts at the end of each calendar month. 5

On 3rd January, 2013 the accountant of the company located the following errors in the books of account :

(i) An amount of ₹ 8,700 received from customer Mehra was credited to Mehta, another customer.

(ii) The sales book for December, 2012 was undercast by ₹ 1,000.

(iii) Goods invoiced at ₹ 15,600 were returned to supplier, M/s. Mega Ltd., but no entry was made in the books for this return made on 28th December, 2012.

Pass the necessary Journal Entries to rectify the above mentioned errors.

(c) On 15th December, 2012, a fire occurred in the premises of M/s. OM Exports. Most of the stocks were destroyed. Cost of stock salvaged being ₹ 1,40,000. From the books of account, the following particulars were available : 5

(i) Stock at the close of account on 31st March, 2012 was valued at ₹ 9,40,000.

(ii) Purchases from 01-04-2012 to 15-12-2012 amounted to ₹ 13,20,000 and the sales during that period amounted to ₹ 20,25,000.

On the basis of his accounts for the past three years, it appears that average gross profit ratio is 20% on sales.

Compute the amount of the claim, if the stock were insured for ₹ 4,00,000.

Marks

(d) In 2011, M/s. Wye Ltd. issued 12% fully paid debentures of ₹ 100 each, interest being payable half yearly on 30th September and 31st March of every accounting year. **5**

On 1st December, 2012, M/s. Bull & Bear purchased 10,000 of these debentures at ₹ 101 cum-interest price, also paying brokerage @ 1% of cum-interest amount of the purchase. On 1st March, 2013 the firm sold all of these debentures at ₹ 106 cum-interest price, again paying brokerage @ 1% of cum-interest amount.

Prepare Investment Account in the books of M/s. Bull & Bear for the period 1st December, 2012 to 1st March, 2013.

2. P, Q and R were carrying on a business in partnership, sharing profits and losses in the ratio of 5 : 3 : 2 respectively. The firm earned a profit of ₹ 3,60,000 for the accounting year ended 31st March, 2012 on which date the firm's Balance Sheet stood as follows : **16**

Balance Sheet as at 31st March, 2012

Liabilities	₹	Assets	₹
P's Capital	7,00,000	Freehold Land and Building	8,00,000
Q's Capital	5,70,000	Machinery	3,50,000
R's Capital	4,30,000	Furniture & Fixtures	1,02,000
Creditors	79,400	Stock	2,98,800
Outstanding Expenses	4,900	Debtors	1,60,000
		Cash at Bank	73,500
Total	**17,84,300**	**Total**	**17,84,300**

P died on 31st August, 2012. According to firm's partnership deed, in case of death of a partner :-

(i) Assets and Liabilities have to be revalued by an independent valuer.

(ii) Goodwill is to be calculated at two years' purchase of average profits for the last three completed accounting years and the deceased partner's capital account is to be credited with his share of goodwill.

(iii) The share of the deceased partner in the profits for the period between end of the previous accounting year and the date of death is to be calculated on the basis of the previous accounting year's profits. Post death of P, Q & R will share profit in the ratio of 3 : 2.

Profits for the accounting years 2009-2010 and 2010-2011 were as follows :-

	₹
For the year ended 31st March, 2010	2,90,000
For the year ended 31st March, 2011	3,40,000

Drawings by P from 1st April, 2012 to the date of his death totalled ₹ 46,000.

On revaluation, Freehold Land and Building was appreciated by ₹ 1,00,000; Machinery was depreciated by ₹ 10,000 and a Provision for Bad Debts was created @ 5% on Debtors as on 31st March, 2012. P's sole heir was given ₹ 5,00,000 immediately and the balance along with interest @ 12% per annum was paid to him on 31st March, 2013.

Prepare Revaluation Account, P's Capital Account and P's Heir Account, giving important working notes.

3. The Balance Sheet of M/s. Cube Limited as on 31-03-2013 is given below : 16

Particulars	Note No.	Amount (₹ in lakh)
Equity & Liabilities		
Shareholders' Funds		
Share Capital	1	700
Reserves & Surplus	2	(261)
Non-Current Liabilities		
Long term Borrowings	3	350
Current Liabilities		
Trade Payables	4	51
Other Liabilities	5	12
Total		**852**
Assets		
Non-Current Assets		
Fixed Assets		
Tangible Assets	6	375
Current Assets		
Current Investments	7	100
Inventories	8	150
Trade Receivables	9	225
Cash & Cash Equivalents	10	2
Total		**852**

Notes :

	Amount (₹ in lakh)
1. **Share Capital**	
Authorised	
100 lakh Equity Shares of ₹ 10 each	1,000
4 lakh, 8% Preference Shares of ₹ 100 each	400
	1,400
Issued, Subscribed and Paid-up	
50 lakh Equity Shares of ₹ 10 each, fully paid up	500
2 lakh 8% Preference Shares of ₹ 100 each, fully paid up	200
	700
2. **Reserves & Surplus**	
Debit balance of Profit & Loss A/c.	(261)
3. **Long Term Borrowings**	
6% Debentures (Secured by Freehold Property)	200
Directors' Loan	150
	350
4. **Trade Payables**	
Sundry Creditors for Goods	51
5. **Other Current Liabilities**	
Interest Accrued and Due on 6% Debentures	12
6. **Tangible Assets**	
Freehold Property	275
Plant & Machinery	100
	375
7. **Current Investment**	
Investment in Equity Instruments	100

 Marks

8. Inventories

Finished Goods	150

9. Trade Receivables

Sundry Debtors for Goods	225

10. Cash and Cash Equivalents

Balance with Bank	2

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 ₹ 80 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 ₹ 150 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 ₹ 200 lakh.

(6) All investments sold out for ₹ 125 lakh.

(7) 70% of Directors' loan to be waived and for the balance, Equity Shares of ₹ 2 each to be allowed.

(8) 40% of Sundry Debtors and 80% of Inventories to be written off.

(9) Company's contractual commitments amounting to ₹ 300 lakh have been settled by paying 5% penalty of contract value.

Marks

You are required to :

(a) Pass Journal Entries for all the transactions related to internal reconstruction.

(b) Prepare Reconstruction Account and

(c) Prepare notes on Share Capital and Tangible Assets to Balance Sheet, immediately after the implementation of scheme of internal reconstruction.

4. A sole trader requests you to prepare his Trading and Profit & Loss Account for the year ended 31st March, 2013 and Balance Sheet as at that date. He provides you the following information : 16

Statement of Affairs as at 31st March, 2012

Liabilities		₹	Assets	₹
Bank Overdraft		4,270	Furniture	96,000
Outstanding Expenses			Computer	24,300
Salaries	8,000		Mobile Phone	8,000
Rent	6,000	14,000	Stock	89,500
Bills Payable		22,500	Trade Debtors	55,000
Trade Creditors		52,500	Bills Receivable	15,000
Capital			Unexpired Insurance	2,400
(balancing figure)		1,97,430	Stock of Stationery	200
			Cash in Hand	300
Total		**2,90,700**	**Total**	**2,90,700**

Marks

He informs you that there has been no addition to or sale of Furniture, Computer and Mobile Phone during the accounting year 2012-13. The other assets and liabilities on 31st March, 2013 are as follows :-

	₹
Stock	95,400
Trade Debtors	65,000
Bills Receivable	20,000
Unexpired Insurance	2,500
Stock of Stationery	250
Cash at Bank	18,000
Cash at Hand	7,230
Salaries Outstanding	8,300
Rent Outstanding	6,000
Bills Payable	26,500
Trade Creditors	76,000

He also provides to you the following summary of his cash transactions :-

Receipts	₹	Payments	₹
Cash Sales	5,09,800	Trade Creditors	3,06,000
Trade Debtors	1,51,900	Bills Payable	80,000
Bills Receivable	65,000	Salaries	99,000
		Rent	72,000
		Insurance Premium	10,000
		Stationery	1,500
		Mobile Phone Expenses	9,000
		Drawings	1,20,000

It is found prudent to depreciate Furniture @ 5%, Computer @ 10% and Mobile Phone @ 25%. A provision for bad debts @ 5% on Trade Debtors is also considered desirable.

5. (a) The Receipts and Payments Account, the Income and Expenditure Account and additional information of a sports club for the year ended 31st March, 2013 were as follows :

Receipts & Payments Account

For the year ending on 31st March, 2013

Receipts	₹	Payments	₹
To Balance b/d	42,000	By Secretary Salary	10,000
To Entrance Fees 2011-12	10,000	By Printing & Stationery	26,000
To Entrance Fees 2012-13	1,00,000	By Advertising	16,000
To Subscription 2011-12	6,000	By Fire Insurance	12,000
To Subscription 2012-13	1,50,000	By 12% Investments	
To Subscription 2013-14	4,000	(Purchased on 01-10-2012)	2,00,000
To Rent Received	24,000	By Furniture	20,000
To Interest Received	6,000	By Balance c/d	58,000
Total	**3,42,000**	**Total**	**3,42,000**

Income & Expenditure Account

For the year ending on 31st March, 2013

Expenditure	₹	Income	₹
To Secretary Salary	15,000	By Entrance Fees	1,05,000
To Printing & Stationery	22,000	By Subscription	1,56,000
To Advertising	16,000	By Rent	28,000
To Audit Fees	5,000	By Interest on Investments	12,000
To Fire Insurance	10,000		
To Depreciation :			
Sports Equipments	90,000		
Furniture	5,000		
To Surplus	1,38,000		
Total	**3,01,000**	**Total**	**3,01,000**

Additional Information :

The assets and liabilities as on 31st March, 2012 include Club Grounds & Pavilion ₹ 4,40,000, Sports Equipments ₹ 2,50,000, Furniture & Fixtures ₹ 40,000, Subscription in Arrear ₹ 8,000, Subscription received in advance ₹ 2,000 and Creditors for Printing & Stationery ₹ 5,000.

You are required to prepare the Balance Sheet of the Club as on 31st March, 2013.

(b) On 1st April, 2012, M/s. Power Motors sold on hire purchase basis a truck whose cash price was ₹ 9,00,000 to M/s. Singh & Singh, a firm of transporters. The terms of the contract were that the transporters were to pay ₹ 3,00,000 down and six four-monthly instalments of ₹ 1,00,000 plus interest on outstanding amount of cash price for the intervening four months. The instalments were payable on 31st July, 30th November and 31st March in each one of the two accounting years. Interest was calculated @ 12% per annum.

M/s. Singh & Singh duly paid the instalment on 31st July, 2012 but failed to pay the instalment on 30th November, 2012. M/s. Power Motors, after legal formalities, repossessed the truck valuing it at ₹ 7,00,000.

M/s. Power Motors spent ₹ 80,000 on repairs and repainting of the truck and on 7th January, 2013 sold it for ₹ 7,50,000 cash.

You are required to prepare the account of M/s. Singh & Singh and Goods Repossessed Account in the books of M/s. Power Motors.

6. (a) The promoters of M/s. Glorious Ltd. took over on behalf of the company a running business with effect from 1st April, 2012. The company got incorporated on 1st August, 2012. The annual accounts were made upto 31st March, 2013 which revealed that the sales for the whole year totalled ₹ 1,600 lakh out of which sales till 31st July, 2012 were for ₹ 400 lakh. Gross profit ratio was 25%.

The expenses from 1st April 2012, till 31st March, 2013 were as follows :

	(₹ in lakhs)
Salaries	69
Rent, Rates and Insurance	24

Sundry Office Expenses	66
Travellers' Commission	16
Discounts Allowed	12
Bad Debts	4
Directors' Fee	25
Audit Fee	9
Depreciation on Tangible Assets	12
Debenture Interest	11

Prepare a statement showing the calculation of Profits for the pre-incorporation and post-incorporation periods.

(b) On the basis of the following information prepare a Cash Flow Statement for the year ended 31st March, 2013 :- **8**

(i) Total sales for the year were ₹ 199 crore out of which cash sales amounted to ₹ 131 crore.

(ii) Cash collections from credit customers during the year totalled ₹ 67 crore.

(iii) Cash paid to suppliers of goods and services and to the employees of the enterprise amounted to ₹ 159 crore.

(iv) Fully paid preference shares of the face value of ₹ 16 crore were redeemed and equity shares of the face value of ₹ 16 crore were allotted as fully paid up at a premium of 25%.

(v) ₹ 13 crore were paid by way of income tax.

Marks

(vi) Machine of the book value of ₹ 21 crore was sold at a loss of ₹ 30 lakhs and a new machine was installed at a total cost of ₹ 40 crore.

(vii) Debenture interest amounting ₹ 1 crore was paid.

(viii) Dividends totalling ₹ 10 crore was paid on equity and preference shares. Corporate dividend tax @ 17% was also paid.

(ix) On 31st March, 2012 balance with bank and cash on hand totalled ₹ 9 crore.

7. Answer any **four** out of the following : **4×4 =16**

(a) What is an Enterprise Resource Planning (ERP) software ? What are the factors which you will take into consideration while choosing an ERP software ? **4**

(b) What are the three fundamental accounting assumptions recognised by Accounting Standard (AS) 1 ? Briefly describe each one of them. **4**

(c) On 31st March 2013 a business firm finds that cost of a partly finished unit on that date is ₹ 530. The unit can be finished in 2013-14 by an additional expenditure of ₹ 310. The finished unit can be sold for ₹ 750 subject to payment of 4% brokerage on selling price. The firm seeks your advice regarding :- **4**

(i) the amount at which the unfinished unit should be valued as at 31st March, 2013 for preparation of final accounts and

(ii) the desirability or otherwise of producing the finished unit.

Marks

(d) M/s. Moon Ltd. sold goods worth ₹ 6,50,000 to Mr. Star. Mr. Star asked for a trade discount amounting to ₹ 53,000 and same was agreed to by M/s. Moon Ltd. The sales was effected and goods were dispatched. On receipt of goods, Mr. Star has found that goods worth ₹ 67,000 are defective. Mr. Star returned defective goods to M/s. Moon Ltd. and made payment due amounting to ₹ 5,30,000. The accountant of M/s. Moon Ltd. booked the sale for ₹ 5,30,000. Discuss the contention of the accountant with reference to Accounting Standard (AS) 9. **4**

(e) What are the issues, with which Accounting Standards deal ? **4**