Roll No. ....

NOV 2010

IPCC
GROUP-I PAPER-1
ACCOUNTING

Total No. of Questions – **7**

Total No. of Printed Pages – **16**

Time Allowed : **3** Hours

Maximum Marks : **100**

AKG

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.

Q. No. **1** is compulsory.

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

Wherever necessary suitable assumption may be made by the candidates.

Working notes should form part of the answer.

Marks

1. (a) Following two problems are regarding issues in Partnership Accounts, kindly solve both : **4×5 =20**

(i) Anil and Mukesh are partners sharing profit and losses in the ratio of 3 : 2. Govind is admitted for $\frac{1}{4}^{th}$ share of firm. Thereafter Madan enters for 20 paisa in a rupee. Compute new profit sharing ratios under both the admission of partners.

(ii) The following Goodwill Account was opened by the partners of R and S, on the admission of H as a new partner into firm Om and Sons. Calculate the share of profit agreed to be given to "H".

Marks

Goodwill A/c.

Dr. **Cr.**

	₹		₹
1-4-2010 To R's Capital A/c	24,800	1-4-2010 By R's Capital A/c	12,400
1-4-2010 To S's Capital A/c	18,600	1-4-2010 By S's Capital A/c	12,400
		1-4-2010 By H's Capital A/c	18,600
	43,400		**43,400**

(b) HP is a leading distributor of petrol. A detail inventory of petrol in hand is taken when the books are closed at the end of each month. At the end of month following information is available :

Sales	₹	47,25,000	
General overheads cost	₹	1,25,000	
Inventory at beginning		1,00,000	litres @ 15/- per litre

Purchases

June 1 two lakh litres @ 14.25

June 30 one lakh litres @ 15.15

Closing inventory 1.30 lakh litres

Compute the following by the FIFO as per AS-2 :

(i) Value of Inventory on June 30.

(ii) Amount of cost of goods sold for June.

(iii) Profit/Loss for the month of June.

(c) A and B decide to amalgamate themselves into Sharp Limited. The following are their Balance Sheets as on 31st December, 2009.

Liabilities	A Ltd.	B Ltd.	Assets	A Ltd.	B Ltd.
Face value and paid up capital			Investments		
Share capital (₹ 100 each)	5,00,000	4,00,000	1000 shares in B Ltd.	1,30,000	–
General Reserves	2,00,000	1,00,000	2000 shares in A Ltd	–	2,10,000
10% Debentures	2,00,000	1,50,000	Sundry Assets	7,70,000	4,40,000
	9,00,000	**6,50,000**		**9,00,000**	**6,50,000**

Compute the amount of purchase consideration each of these companies under purchase method as per AS-14.

(d) H purchased 500 equity shares of ₹ 100 each in the ABC Company Limited for ₹ 62,500 inclusive of brokerage and stamp duty. Some years later the company decided to capitalise its profit and to issue to the holders of equity shares one equity share as Bonus for every equity share held by them. Prior to capitalization, the shares of ABC Company Limited were quoted at ₹ 175 per share. After the capitalization, the shares were quoted at ₹ 92.50 per share. H sold the Bonus shares and received ₹ 90 per share. Show Investment A/c in H's books on average cost basis as per AS-13.

Marks

2. The Young Trust runs a Charitable Hospital and a Dispensary. The following information is available for the year ended 31st March, 2009 from the books of accounts : **16**

	Dr. ₹	Cr. ₹
Capital Fund		9,00,000
Donations received during the year		6,00,000
Recovery of the Rent		2,75,000
Fees received from patients		3,00,000
Recovery of Food Supplies		1,40,000
Surgical Equipments	4,55,000	
Building & Operation Theatres	3,20,000	
Consumption in the Hospital of :		
Medicines	1,20,000	
Food Stuff	90,000	
Chemicals	30,000	
Closing Stock of Hospital		
Medicines	20,000	
Food Stuff	4,000	
Chemicals	1,000	
Sales of Medicines (Dispensary)		3,10,000
Opening Stock of Medicines (Dispensary)	55,000	
Purchase of Medicines (Dispensary)	3,00,000	

Marks

Salaries :		
Administrative Staff	30,000	
Doctors/Nurses	1,50,000	
Assistant at the Dispensary	15,000	
Electricity & Power Charges :		
Hospital	1,05,000	
Dispensary	2,000	
Furniture & Equipments	80,000	
Ambulance	30,000	
Postage & Telephone Expenses less recovery	26,000	
Subscription to Medical Journals	21,000	
Ambulance Maintenance Charges less recovery		800
Consumption of Bed Sheets	90,000	
Fixed Deposits made on 01-04-2008 for three years at interest @ 11% p.a.	5,00,000	
Cash & Bank Balances	41,300	
Sundry Debtors (Dispensary)	60,500	
Sundry Creditors (Dispensary)		41,000
Remuneration to Trustees, Trust Office Expenses etc.	21,000	

Additional Information :

(a) The dispensary supplied medicines to the hospital worth ₹ 60,000, for which no adjustment was made in the books.

(b) The closing stock of the medicines was ₹ 40,000 at the dispensary.

(c) The stock of medicines on 31st March, 2009 at the hospital included ₹ 4,000 worth of medicines belonging to the patients, which has not been considered while arriving at the figure of consumption of medicines.

(d) The donations were received towards Corpus of the Trust.

(e) On 15th August, 2008, surgical equipments were donated having market value of ₹ 40,000.

(f) The hospital is to receive the grant of 25% of the amount spent on treatment of the poor patients from the Red Cross Society. Such expenditure was ₹ 50,000.

(g) Out of the fees recovered from the patients, 10% is to be given to the Specialist retained by the Hospital.

(h) Depreciation on the assets on the closing balances :

Surgical Equipments @ 20%

Building @ 5%

Furniture & Equipments @ 10%

Ambulance @ 30%

You are required to prepare :

(i) Income and Expenditure Account of the Hospital, Dispensary and Trust.

(ii) Statement of Affairs of the Trust for the year ended 31st March, 2009.

Marks

3. From the following information, prepare a Cash Flow Statement as per AS-3 for Banjara Ltd., using direct method : **16**

Balance Sheet as on March 31, 2010 (₹ '000)

	2010	2009
Assets :		
Cash on hand and balances with bank	200	25
Marketable securities (having one month Maturity)	670	135
Sundry Debtors	1,700	1,200
Interest Receivable	100	–
Inventories	900	1,950
Investments	2,500	2,500
Fixed Assets at Cost	2,180	1,910
Accumulated Depreciation	(1,450)	(1,060)
Fixed Assets (net)	730	850
Total Assets	6800	6660
Liabilities :		
Sundry Creditors	150	1,890
Interest Payable	230	100
Income tax Payable	400	1,000
Long term Debt	1,110	1,040
Total Liabilities	1,890	4,030
Shareholder's Fund :		
Share Capital	1,500	1,250
Reserves	3,410	1,380
	4,910	2,630
Total Liabilities and Shareholders' Fund	6,800	6,660

Marks

Statement of Profit or Loss for the year ended 31-3-10

(₹ '000)

Sales	30,650
Cost of sales	(26,000)
Gross profit	4,650
Depreciation	(450)
Administrative and Selling expenses	(910)
Interest expenses	(400)
Interest income	300
Dividend income	200
Net profit before taxation and extraordinary items	3,390
Extraordinary items :	
Insurance proceeds from earthquake disaster settlement	140
Net profit after extraordinary items	3,530
Income tax	(300)
Net profit	**3,230**

Additional Information : **(₹ '000)**

(i) An amount of ₹ 250 was raised from the issue of share capital and a further ₹ 250 was raised from long-term borrowings.

Marks

(ii) Interest expense was ₹ 400 of which ₹ 170 was paid during the period ₹ 100 relating to interest expense of the prior period was also paid during the period.

(iii) Dividends paid were ₹ 1,200.

(iv) Tax deducted at source on dividends received (included in the tax expense of ₹ 300 for the year) amounted to ₹ 40.

(v) During the period the enterprise acquired Fixed Assets for ₹ 350. The payment was made in cash.

(vi) Plant with original cost of ₹ 80 and accumulated Depreciation of ₹ 60 was sold for ₹ 20.

(vii) Sundry debtors and Sundry creditors include amounts relating to credit sales and credit purchase only.

4. Ramu, Shamu and Raju were partners sharing profits and losses in the ratio of 3 : 2 : 2. Their Balance Sheet as on 01-01-2009 was as follows : **16**

Liabilities		**₹**	**Assets**	**₹**
Capital Accounts			Fixed Assets	80,000
Ramu	30,000		Stock	15,000
Shamu	20,000		Debtors	12,000
Raju	20,000	70,000	Cash & Bank	1,951
Reserves		14,000		
Creditors		24,951		
		1,08,951		**1,08,951**

On 1st October, 2009 Ramu died. His heirs agreed that :

(i) Goodwill of the firm be valued at 2 years' purchase of average profit of past three years. Profits for the year 2006, 2007 and 2008 were ₹ 30,000, ₹ 40,000 and ₹ 47,600 respectively.

(ii) Fixed Assets be revalued at ₹ 1,01,000.

(iii) Profit to be shared, earned in subsequent period after death of Ramu till settlement of his executors' claim.

Ramu's heirs account was settled on 31-12-2009 by bringing in required cash by remaining partners in equal proportion leaving cash balance of ₹ 1,234. Each partner had drawn @ ₹ 1,000 per month for personal use.

Profit for the current year after charging depreciation of ₹ 9,000 (₹ 6,000 for first three quarters and ₹ 3,000 for last quarter) was ₹ 46,600 earned evenly through-out the year.

You are requested to prepare Profit & Loss Appropriation A/c, Cash & Bank A/c, Ramu's Executor's A/c and Partners' Capital Accounts for the year ended on 31-12-2009 assuming remaining partners' decided not to retain goodwill in the books.

Marks

(a) The following is the Balance Sheet of Bumbum Limited as at 31st March, 2009 : 12

Sources of Funds	₹
Authorized Capital	
50,000 Equity shares of ₹ 10 each	5,00,000
10,000 Preference shares of ₹ 100 each	10,00,000
Issued subscribed and paid up	15,00,000
30,000 Equity shares of ₹ 10 each	3,00,000
5,000 Redeemable 8% Preference shares of ₹ 100 each	5,00,000
Reserves & Surplus	
Securities Premium	6,00,000
General Reserve	6,50,000
Profit & Loss A/c	1,80,000
2500, 9% Debentures of ₹ 100 each	2,50,000
Sundry Creditors	1,70,000
	26,50,000
Application of Funds	
Fixed Assets (net)	7,80,000
Investments (market value ₹ 5,80,000)	4,90,000
Deferred Tax Assets	3,40,000
Sundry Debtors	6,20,000
Cash & Bank balance	2,80,000
Preliminary expenses	1,40,000
	26,50,000

In Annual General Meeting held on 20th June, 2009 the company passed the following resolutions :

(i) To split equity share of ₹ 10 each into 5 equity shares of ₹ 2 each from 1st July, 09.

(ii) To redeem 8% preference shares at a premium of 5%.

(iii) To redeem 9% Debentures by making offer to debentureholders to convert their holdings into equity shares at ₹ 10 per share or accept cash on redemption.

(iv) To issue fully paid bonus shares in the ratio of one equity share for every 3 shares held on record date.

On 10th July, 2009 investments were sold for ₹ 5,55,000 and preference shares were redeemed.

40% of Debentureholders exercised their option to accept cash and their claims were settled on 1st August, 2009.

The company fixed 5th September, 2009 as record date and bonus issue was concluded by 12th September, 2009.

You are requested to journalize the above transactions including cash transactions and prepare Balance Sheet as at 30th September, 2009. All working notes should form part of your answer.

Marks

(b) Ujju Enterprise furnishes you the following information for the period October to December, 2009. You are requested to draw up Debtors Ledger Adjustment Account in the General Ledger : 4

(i) Total sales amounted to ₹ 2,20,000 including sale of old motor car for ₹ 10,000 (book value ₹ 5,000). Total credit sales were 80% higher than the cash sales.

(ii) Cash collection from debtors amounted to 60% of the aggregate of the opening debtors amounting to ₹ 40,000 and credit sales for the period. Debtors were allowed discount of ₹ 10,000.

(iii) Bills receivables drawn during the period totalled ₹ 20,000 of which one bill of ₹ 5,000 was dishonoured for non-payment as the party became insolvent, his estate realized 50 paise in a rupee.

(iv) A sum of ₹ 3,000 was written off as bad debts, ₹ 7,000 was realized against bad debts written off in earlier years and provision of ₹ 6,000 was made for doubtful debts.

6. (a) The partners of Shri Enterprises decided to convert the partnership firm into a Private Limited Company Shreya (P) Ltd. with effect from 1st January, 2008. However, company could be incorporated only on 1st June, 2008. The business was continued on behalf of the company and the consideration of ₹ 6,00,000 was settled on that day along with interest @ 12% per annum. The company availed loan of ₹ 9,00,000 @ 10% per annum on 1st June, 2008 to pay purchase consideration and for working capital. The company closed its accounts for the first time on 31st March, 2009 and presents you the following summarized profit and loss account : 10

	₹	₹
Sales		19,80,000
Cost of goods sold	11,88,000	
Discount to dealers	46,200	
Directors' remuneration	60,000	
Salaries	90,000	
Rent	1,35,000	
Interest	1,05,000	
Depreciation	30,000	
Office expenses	1,05,000	
Sales promotion expenses	33,000	
Preliminary expenses		
(to be written off in first year itself)	15,000	18,07,200
Profit		**1,72,800**

Sales from June, 2008 to December, 2008 were 2½ times of the average sales, which further increased to 3½ times in January to March quarter, 2009. The company recruited additional work force to expand the business. The salaries from July, 2008 doubled. The company also acquired additional showroom at monthly rent of ₹ 10,000 from July, 2008.

You are required to prepare a Profit and Loss Account showing apportionment of cost and revenue between pre-incorporation and post-incorporation periods. Also suggest how the pre-incorporation profits/losses are to be dealt with.

Marks

(b) Sonam Corporation sells goods on hire purchase basis. The hire purchase price is cost plus 50%. **6**

From the following particulars prepare Hire Purchase Trading Account for the year ended 31st March, 2010 :

Instalments not yet due on 01-04-09	3,00,000
Instalments due on 01-04-09	1,50,000
Goods sold on hire purchase during the year	9,00,000
Instalments collected from HP debtors	6,80,000
Stock with customers at hire purchase price	4,50,000
Goods re-possessed during the year	60,000
On 31-03-2010 Goods repossessed were valued at	Cost less 40%

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

(a) A company installed a plant at a cost of ₹ 20 lacs with estimated useful life of 10 years and decided to depreciate on straight line method. In the fifth year company decided to switch over from straight line method to written down value method. Compute the resultant surplus/deficiency if any, and state how will you treat the same in the accounts.

(b) A large size multi department's hospital decided to outsource the accounting functions. Hospital invited proposals from vendors through open tender and received three proposals. How will you select the vendor ?

(c) An amount of ₹ 9,90,000 was incurred on a contract work upto 31-3-2010. Certificates have been received to date to the value of ₹ 12,00,000 against which ₹ 10,80,000 has been received in cash. The cost of work done but not certified amounted to ₹ 22,500. It is estimated that by spending an additional amount of ₹ 60,000 (including provision for contingencies) the work can be completed in all respects in another two months. The agreed contract price of work is ₹ 12,50,000. Compute a conservative estimate of the profit to be taken to the Profit and Loss Account as per AS-7.

(d) A trader intends to take a loss of profit policy with indemnity period of 6 months, however, he could not decide the policy amount. From the following details, suggest the policy amount :

	₹
Turnover in last financial year	4,50,000
Standing charges in last financial year	90,000

Net profit earned in last year was 10% of turnover and the same trend expected in subsequent year.

Increase in turnover expected 25%

To achieve additional sales, trader has to incur additional expenditure of ₹ 31,250.

(e) From the following details find out the average due date :

Date of Bill	Amount (₹)	Usance of Bill
29th January, 2009	5,000	1 month
20th March, 2009	4,000	2 months
12th July, 2009	7,000	1 month
10th August, 2009	6,000	2 months