

MAY 2010

IPCC
GROUP-I PAPER-1
ACCOUNTING

Roll No.....

Total No. of Questions—6]

[Total No. of Printed Pages—8

Time Allowed—3 Hours

Maximum Marks—100

LOT

All questions are compulsory.

Wherever necessary suitable assumptions may be made by the candidates.

Working notes should form part of the answer.

Marks

1. (i) A and B are partners in a firm sharing profits and losses in the ratio of 10×2
3 : 2. Their capitals are Rs. 60,000 and Rs. 40,000 respectively. They admit =20
C as a new partner who will get $\frac{1}{6}$ th share in the profit of the firm. C brings
in Rs. 25,000 as his capital. Find out the amount of goodwill on the basis of
the above information.

- (ii) From the following, calculate the cash price of the asset :

	Rs.
Hire purchase price of the asset	50,000
Down payment	10,000
Four annual instalments at the end of each year	10,000
Rate of Interest	5% p.a.

- (iii) Mr. X purchased 1,000, 6% Government Bonds of Rs. 100 each on 31st January, 2009 at Rs. 95 each. Interest is payable on 30th June and 31st December. The price quoted is cum interest. Journalise the transaction.

- (iv) Swaminathan owed to Subramaniam the following sums :

Rs. 5,000 on 20th January, 2009

Rs. 8,000 on 3rd March, 2009

Rs. 6,000 on 5th April, 2009

Rs. 11,000 on 30th April, 2009

Ascertain the average due date.

LOT

P. T. O.

- (v) A company acquired a machine on 1.4.2006 for Rs. 5,00,000. The company charged depreciation upto 2008-09 on straight line basis with estimated working life of 10 years and scrap value of Rs. 50,000. From 2009-10, the company decided to change depreciation method at 20% on reducing balance method. Compute the amount of depreciation to be debited to Profits and Loss A/c for the year 2009-10.
- (vi) An unquoted long-term investment is carried in the books at cost of Rs. 2 lac. The published accounts of unlisted company received in May, 2009 showed that the company has incurred cash losses with decline market share and the long-term investment may not fetch more than Rs. 20,000. How you will deal with it in the financial statement of investing company for the year ended 31.3.2009.
- (vii) In the absence of a partnership deed, what will be your decision in disputes amongst partners regarding the following matters :
- (a) Profit sharing ratio;
 - (b) Interest rate at which interest is to be allowed to a partner on loan given to the firm by a partner.
- (viii) According to Accounting Standard-9, when revenue from sales should be recognised ?
- (ix) In January, 2010 a firm took an insurance policy for Rs. 60 lakhs to insure goods in its godown against fire subject to average clause. On 7th March, 2010 a fire broke out destroying goods costing Rs. 44 lakhs. Stock in the godown was estimated at Rs. 80 lakhs. Compute the amount of insurance claim.
- (x) On 1st April, 2009 a car company sold to Arya Bros., a motor car on hire-purchase basis. The total hire-purchase price was Rs. 4,60,000 with down payment of Rs. 1,60,000. Balance amount was to be paid in three annual instalments of Rs. 1,00,000 each. The first instalment payable on 31st March, 2010. The cash price of the car was Rs. 4,00,000.

How will Arya Bros. account for interest over three accounting years assuming books of accounts are closed on 31st March every year.

2. The books of account of Ruk Ruk Maan of Mumbai showed the following figures : 16

	31.3.2008	31.3.2009
	Rs.	Rs.
Furniture & Fixtures	2,60,000	2,34,000
Stock	2,45,000	3,20,000
Debtors	1,25,000	?
Cash in hand & Bank	1,10,000	?
Creditors	1,35,000	1,90,000
Bills Payable	70,000	80,000
Outstanding Salaries	19,000	20,000

An analysis of the cash book revealed the following :

	Rs.
Cash sales	16,20,000
Collection from debtors	10,58,000
Discount allowed to debtors	20,000
Cash purchases	6,15,000
Payment to Creditors	9,73,000
Discount received from creditors	32,000
Payment for bills payable	4,30,000
Drawings for domestic expenses	1,20,000
Salaries paid	2,36,000
Rent paid	1,32,000
Sundry trade expenses	81,000

Depreciation is provided on furniture & fixtures @ 10% p.a. on diminishing balance method. Ruk Ruk Maan maintains a steady gross profit rate of 25% on sales.

You are required to prepare trading and profit and loss account for the year ended 31st March, 2009 and Balance Sheet as on that date.

3. The Balance Sheet of Reckless Ltd. as on 31st March, 2008 is as follows : 16

Assets		Rs.
Freehold Premises		2,20,000
Machinery		1,77,000
Furniture & Fittings		90,800
Stock		3,87,400
Sundry Debtors	80,000	
Less : Provision for Bad Debts	<u>4,000</u>	76,000
Cash in Hand		2,300
Cash at bank		1,56,500
Bills Receivable		15,000
		<u>11,25,000</u>
Liabilities		
60,000 Equity Shares of Rs. 10 each		6,00,000
Prior Incorporation profit		21,000
Contingency Reserve		1,35,000
Profit & Loss Appropriation Account		1,26,000
Acceptances		20,000
Creditors		1,13,000
Provision for Income-tax		1,10,000
		<u>11,25,000</u>

Careful Ltd. decided to take over Reckless Ltd. from 31st March, 2008 with the following assets at value noted against them :

Bills Receivable	15,000
Freehold Premises	4,00,000
Furniture and Fittings	80,000
Machinery	1,60,000
Stock	3,45,000

1/4 of the consideration was satisfied by the allotment of fully paid preference share of Rs. 100 each at par which carried 13% dividend on cumulative basis. The

balance was paid in the form of Careful Ltd.'s equity shares of Rs. 10 each, Rs. 8 paid up.

Sundry Debtors realised Rs. 79,500. Acceptances were settled for Rs. 19,000. Income-tax authorities fixed the taxation liability at Rs. 1,11,600. Creditors were finally settled with the cash remaining after meeting liquidation expense amounting to Rs. 4,000.

You are required to :

- (i) Calculate the number of equity shares and preference shares to be allotted by Careful Ltd. in discharge of consideration.
- (ii) Prepare the important ledger accounts in the books of Reckless Ltd.; and
- (iii) Pass Journal entries in the books of Careful Ltd. with narration.

4. (a) Easilife Ltd. has a hire-purchase department which fixes hire-purchase price by adding 40% to the cost of the goods. The following additional information is provided to you :

	Rs.
On 1st April, 2009 :	
Goods out on hire-purchase (at hire-purchase price)	2,10,000
Instalments due	14,000
Transactions during the year :	
Hire-purchase price of goods sold	9,80,000
Instalments received	8,12,000
Value of goods repossessed due to defaults (hire-purchase instalments unpaid Rs. 5,600)	7,800
On 31st March, 2010 :	
Goods out on hire-purchase (at hire-purchase price)	3,78,000

You are required to prepare Hire-purchase Trading Account, ascertaining the profit made by the department during the year ended 31st March, 2010.

- (b) Gamma Investment Company hold 1,000, 15% debentures of Rs. 100 each in Beta Industries Ltd. as on April 1, 2009 at a cost of Rs. 1,05,000. Interest is payable on June, 30 and December, 31 each year.

(6)

LOT

Marks

On May 1, 2009, 500 debentures are purchased cum-interest at Rs. 53,500. On November 1, 2009 600 debentures are sold ex-interest at Rs. 57,300. On November 30, 2009, 400 debentures are purchased ex-interest at Rs. 38,400. On December 31, 2009, 400 debentures are sold cum-interest for Rs. 55,000.

Prepare the investment account showing value of holdings on March 31, 2010 at cost, using FIFO method.

5. (a) On the basis of the following informations, prepare Income and Expenditure Account for the year ended 31st March, 2010 : 8

Receipts and Payments Account for the year ended 31st March, 2010

Receipts	Rs.	Payments	Rs.
To Cash in hand (opening)	1,300	By Salaries	2,58,000
To Cash at Bank (opening)	3,850	By Rent	71,500
To Subscriptions	4,94,700	By Printing & Stationery	3,870
To Interest on 8% Govt. Bonds	4,000	By Conveyance	10,600
To Bank Interest	160	By Scooter purchased	50,000
		By 8% Govt. Bonds	1,00,000
		By Cash in hand	
		(closing)	840
		By Cash at Bank	
		(closing)	9,200
	<u>5,04,010</u>		<u>5,04,010</u>

- (i) Salaries paid includes Rs. 6,000 paid in advance for April, 2010. Monthly salaries paid were Rs. 21,000.
- (ii) Outstanding rent on 31st March, 2009 and 31st March, 2010 amounted to Rs. 5,500 and Rs. 6,000 respectively.
- (iii) Stock of printing and stationery material on 31st March, 2009 was Rs. 340; it was Rs. 365 on 31st March, 2010.
- (iv) Scooter was purchased on 1st October, 2009. Depreciation @ 20% per annum is to be provided on it.
- (v) Investments were made on 1st April, 2009.

LOT

(7)

LOT

Marks

(vi) Subscriptions due but not received on 31st March, 2009 and 31st March, 2010 totalled Rs. 14,000 and Rs. 12,800 respectively. On 31st March, 2010 subscriptions amounting to Rs. 700 had been received in advance for April, 2010.

(b) The following particulars relate to Bee Ltd. for the year ended 31st March, 2010 : 8

(i) Furniture of book value of Rs. 15,500 was disposed off for Rs. 12,000.

(ii) Machinery costing Rs. 3,10,000 was purchased and Rs. 20,000 were spent on its erection.

(iii) Fully paid 8% preference shares of the face value of Rs. 10,00,000 were redeemed at a premium of 3%. In this connection 60,000 equity shares of Rs. 10 each were issued at a premium of Rs. 2 per share. The entire money being received with applications.

(iv) Dividend was paid as follows :

On 8% preference shares	Rs. 40,000
On equity shares for the year 2009-10	Rs. 1,10,000

(v) Total sales were Rs. 32,00,000 out of which cash sales were Rs. 11,50,000.

(vi) Total purchases were Rs. 8,00,000 including cash purchase of Rs. 60,000.

(vii) Total expenses were Rs. 12,40,000.

(viii) Taxes paid including dividend tax of Rs. 22,500 were Rs. 3,30,000.

(ix) Cash and cash equivalents as on 31st March, 2010 were Rs. 1,25,000.

You are requested to prepare Cash Flow Statement as per AS-3 for the year ended 31st March, 2010 after taking into consideration the following also :

	On 31st March, 2009	On 31st March, 2010
	Rs.	Rs.
Sundry debtors	1,50,000	1,47,000
Sundry creditors	78,000	83,000
Unpaid expenses	63,000	55,000

LOT

P. T. O.

(8)

LOT

Marks

6. Answer the following :

4×4=16

- (a) Weak Ltd. acquired the fixed assets of Rs. 100 lakhs on which it received the grant of Rs. 10 lakhs. What will be the cost of the fixed assets as per AS-12 and how it will be disclosed in the financial statements.
- (b) During the current year 2009-10 M/s L & C Ltd. made the following expenditure relating to its plant and machinery :

Rs.

General repairs	4,00,000
Repairing of Electric Motors	1,00,000
Partial Replacement of parts of Machinery	50,000
Substantial improvements to the electrical wiring system which will increase efficiency of the plant and machinery	10,00,000

What amount should be capitalised according to AS-10 ?

- (c) What are the advantages of pre-packaged accounting software ?
- (d) Raw materials inventory of a company includes certain material purchased at Rs. 100 per kg. The price of the material is on decline and replacement cost of the inventory at the year end is Rs. 75 per kg. It is possible to convert the material into finished product at conversion cost of Rs. 125.

Decide whether to make the product or not to make the product, if selling price is (i) Rs. 175 and (ii) Rs. 225. Also find out the value of inventory in each case.

LOT