Paper 5 - Financial Accounting

Section A is compulsory and answer any 5 questions from Section B

Section A

1. **Answer the following questions (give workings): [2×10]**

(a) ABC Ltd. sent goods on approval basis to Mr. Y at an invoice price of `60,000. The Cost of such goods is `50,000. The company accounted the above transaction as credit sales. State how the rectification of the above will affect the Final Accounts of the company.

Answer:
When goods are sent on approval basis, the sale should be recognized only when the customer indicates his approval. If it is already recorded as sale, the entry should be reversed and the cost of such goods should be included in closing stock. Hence, `60,000 should be deducted from sales and debtors on result of which profit and current asset of the company will reduce and `50,000 should be included in closing stock as a result of which profit will increase and current asset will also increase.
It is apparent from the above that the net effect of the rectification on the Final Accounts of the company is as follows:
Profit will decrease by `10,000
Current Asset will decrease by `10,000.

(b) Sweet Ltd. with its head office in Delhi has a branch at Noida. The following information is given in respect of the branch for the year ended 31st March, 2013.

Particulars	`
Goods sent to branch	**9,50,000**
Stock at branch as on 1st April, 2012	**50,000**
Cash sales	**3,50,000**
Returns from customers	**17,000**
Shortage found in stock at the end of 31st March, 2013	**3,000**
Credit sales	**5,50,000**

Calculate the closing balance of stock in the branch stock account.

Answer:

Branch Stock Account

Dr. **Cr.**

Particulars	Amount (`)	Particulars	Amount (`)
To, Balance b/d	50,000	By, Cash – Cash sales	3,50,000
To, Goods sent to branch A/c	9,50,000	By, Branch Debtor A/c –Credit sales	5,50,000
To, Branch Debtor A/c –Returns by customers	17,000	By, Branch Profit and Loss A/c	3,000
		By, Balance c/d (Closing Stock)	1,14,000
	10,17,000		10,17,000

Closing Balance of Stock in the Branch Stock Account is `1,14,000.

(c) Happy Ltd. furnishes the following balances:

Particulars	As on 1st April, 2011 (`)	As on 31st March, 2012 (`)	As on 31st March, 2013 (`)
Sundry Debtors		6,75,000	5,80,000
Bad debts written off		40,500	37,050
Discount allowed		13,500	12,750
Provision for doubtful debts	49,500		
Provisions for discount on debtors	18,000		

The company maintains a provision for bad debts @ 8% and a provision of 3% for discount on debtors. What will the balance in the provision for discount on debtors account be as on 31st March, 2013?

Answer:

Provision for bad debts as on 31st March, 2013 is `5,70,000 × 8% = `45,600

Provision for discount on debtors as on 31st March, 2013 is `(5,70,000 – 45,600) × 3% = `15,732.

(d) A company reports the following information regarding pension plan assets. Calculate the fair value of plan assets at the end of the year:

Particulars	Amount `
Fair Market value of plan assets (beginning of year)	4,50,000
Employer Contribution	50,000
Actual return on plan assets	25,000
Benefit payments to retirees	20,000

Answer:

Computation of fair value of plan assets:

Particulars	Amount `
Fair Market value of plan assets (beginning of year)	4,50,000
Employer Contribution	50,000
Actual return	25,000
Benefit payments	(20,000)
Fair market value of plan assets (end of year)	5,05,000

(e) M bought goods from N for `20,000. N draws a bill on 1.1.2013 for 3 months which was accepted by M for this purpose. On 1.3.2013, M arranged to retire the bill at a rebate of 15% p.a. Show the entries in the books of N.

Answer:

In the books of N

Journal

Date	Particulars	L.F.	Debit (`)	Credit (`)

2013 Jan 1	M A/c Dr. To, Sales A/c (Goods sold to M)		20,000	20,000
Jan 1	Bills Receivable A/c Dr. To, M A/c (Bills drawn for 3 months)		20,000	20,000
March 1	Cash A/c Dr. Rebate allowed A/c Dr. To, Bills Receivable A/c (Bills retired under a rebate of 15% p.a.)		19,712 288	20,000

Rebate = `20,000 × 15/100 × 35/365 (1st March to 4th April)

(f) On 31st March, 2013, the cash book of Ali Baba Ltd. showed an overdraft balance of `11,500 and this balance did not agree with the balance as per bank statement. On verification the following facts were discovered:

(i) **Certain cheques amounting to `8,500 had not been presented for payment as on 31st March, 2013.**

(ii) **Interest on investment of `2,500 collected by the banker appears only in the bank statement.**

(iii) **The debit side of the cash book had been overcast by `1,000.**

Determine the balance as per pass book.

Answer:

Particulars	**Amount (`)**	**Amount (`)**
Overdraft balance as per Cash Book		11,500
Add: Adjustment for cash book		1,000
Less:		
Cheques issued but not presented	8,500	
Interest on investment directly credited to bank account	2,500	11,000
Overdraft balance as per Pass Book		**1,500**

(g) Annual insurance premium of `3,600 was paid in 2012-13, the insurance premium included `2,700 paid for one year up to 30th September, 2013. Calculate the amount of Insurance premium expense debited to Profit and Loss A/c for the period ended 31st March, 2013.

Answer:

Particulars	**Amount (`)**
Total annual premium paid in 2012-13	3,600
Insurance premium includes a premium up to 30th September, 2013 [`2,700 × 6/12 (the period of 1st April, 2013 to 30th September, 2013)]	1,350
Insurance premium to be debited to Profit and Loss A/c	2,250

(h) ` 60,000 is the annual instalment to be paid for three years (given Present Value of an annuity of ` 1 p.a. @ 5% interest is ` 2.7232). Ascertain the Cash Price in case of Hire-Purchase .

Answer:

Amount of Instalment	Present Value
1	2.7232
`60,000	$\frac{2.7232 \times ` 60,000}{1}$
Cash price is	=`1,63,392

(i) Goods costing ` 6,30,000 were sent out to consignee at a profit of 20 percent on invoice price. Consignee sold 2/3rd goods for ` 6,00,000. Consignee was entitled to an ordinary commission of 3 percent on sales at invoice price and over-riding commission of 20 percent of any surplus realized.
Calculate the amount of consignee's commission.

Answer:

Invoice value of goods sold = `6,30,000$\times \frac{2}{3} \times \frac{100}{(100-20)} = 5,25,000$

Surplus of Sale value over invoice value = `6,00,000 -`5,25,000 =`75,000.

Consignee Commission:

Ordinary	`5,25,000$\times \frac{3}{100}$	= 15,750
Over –riding	`75,000 $\times \frac{20}{100}$	= 15,000
Total Commission		30,750

(j) MGS Ltd. purchased a machine costing `1,50,000 for its manufacturing operations and paid shipping costs of `30,000. MGS Ltd. spent an additional `12,000 testing and preparing the machine for use. What amount should MGS record as the cost of machine?

Answer:

As per As 10, the cost of fixed asset should comprise its purchase price and any attributable cost of bringing the asset to its working condition for its intended use. Cost includes the purchase price, freight and handling charges, insurance cost on the machine while in transit, cost of special foundations, and costs of assembling, installation and testing.

Therefore the cost to be recorded is `(1,50,000+30,000+12,000) i.e. `1,92,000.

Section B

2. (a) P, Q and R were in partnership sharing profits and losses in the ratio of 3 : 2 : 1. The Balance Sheet as on 31.3.2013 is as under :

Liabilities	Amount `	Assets	Amount `
Capital – P	**60,000**	**Machinery**	**80,000**
Capital - Q	**50,000**	**Furniture**	**15,000**
Capital – R	**40,000**	**Motor Car**	**30,000**
Sundry Creditors	**72,000**	**Stock**	**50,000**

Bank Loan	**30,000**	**Sundry Debtors**	**60,000**
Other Liabilities	**20,000**	**Cash at Bank**	**37,000**
	2,72,000		**2,72,000**

P retired on 1.9.2013 and the partnership deed provided inter alia that in the event of admission, retirement or death of a partner, the assets and liabilities are to be revalued and that goodwill of the firm is to be computed on the basis of 2 years purchase of the correct profit of the last 4 years.

During the period he drew `30,000, interest on drawings @ 6% p.a.

It is discovered that the accounts required adjustments owing to certain mistakes in earlier years. On 1.10.2010 repairs to machinery for ` 6,000 had been wrongly debited to the Machinery Account, and on 1.4.2011 a piece of furniture, whose book value was `2,000 was disposed of for `800 but the proceeds were wrongly credited to Sales Account. The partners had been charging depreciation on all fixed assets at 10% p.a. on the reducing balance system on a time basis. Profits for the last four years without adjusting the above mentioned mistakes were as follows:

2009-10 `20,000; 2010-11 `24,000; 2011-12 `32,000; 2012-13 `36,000.

Revaluation on the date of retirement was:

Machinery- `90,000; Furniture- `10,000; Motor car - `22,000.

Partner will also be given proportionate share of profits based on the last year's profit.
Determine the amount to be paid to the retiring partner. **[9]**

Answer:

Statement showing computation of the amount to be paid to the retiring partner:

Particulars	Amount(`)
Capital	60,000
Share of Loss on revaluation	(808)
Proportionate share of goodwill [`52,880 × $\frac{3}{6}$]	26,440
Proportionate share of last year's profit - [`36,693 × $\frac{3}{6} \times \frac{5}{12}$]	7,644
Drawings	(30,000)
Interest on Drawings[`30,000 × $\frac{6}{100} \times \frac{5}{12} \times \frac{1}{2}$]	(375)
Amount to be paid to the retiring partner	**62,901**

Workings:
A.

Dr. **Revaluation Account** **Cr.**

Date	Particulars	`	Date	Particulars	`
	To, Motor Car A/c	8,000		By, Machinery A/c	14,617
	To, Furniture A/c	5,000			

To, Partner's Capital A/c (P-` 808; Q-` 539; R-` 270)	1,617	
	14,617	**14,617**

B.

Ascertainment of Adjusted Profits

	2009-10 `	2010-11 `	2011-12 `	2012-13 `
Profits without adjustment	20,000	24,000	32,000	36,000
Less: Repairs previously capitalised		(–) 6,000		
Add: Depreciation wrongly charged		(+) 300	(+) 570	(+) 513
Less: Sale of Furniture wrongly credited to Sales			(–) 800	
Less: Loss on sale of Furniture not recorded (` 2,000 – 800)			(–) 1,200	
Add: Depreciation on Furniture wrongly provided			(+) 200	(+) 180
Adjusted Profits	20,000	18,300	30,770	36,693

C. **Ascertainment of the Value of Goodwill and its Adjustment**

Aggregate adjusted profits for 4 years: ` 1,05,763; Average Profits — `1,05,763 / 4 = ` 26,440.

Goodwill at 2 years' purchase of average profit = ` 52,880 (` 26,440 × 2).

(b) The following is an extract from the Trial Balance of Utsav Bank Ltd. as on 31st March 2010:

	`
Rebate on Bills Discounted on 01.04.2009	**68,259 (Cr.)**
Discount Received	**1,70,156 (Cr.)**

Analysis of the bills discounted reveals:

Amount (`)	**Due Date**
2,80,000	**June 1, 2010**
8,72,000	**June 8, 2010**
5,64,000	**June 21, 2010**
8,12,000	**July 1, 2010**
6,00,000	**July 5, 2010**

You are required to find out the amount of discount to be credited to Profit and Loss Account for the year ending 31st March 2010, and pass journal entries.
The rate of discount may be taken at 10% p.a. **[7]**

Answer:
Rebate on bills discounted as on 31st March 2010 (for unexpired portion) is calculated as:

Amount
(`)

On $` 2,80,000 \times \frac{62}{365} \times \frac{10}{100}$	4,756
On $` 8,72,000 \times \frac{69}{365} \times \frac{10}{100}$	16,484
On $` 5,64,000 \times \frac{82}{365} \times \frac{10}{100}$	12,671
On $` 8,12,000 \times \frac{92}{365} \times \frac{10}{100}$	20,467
On $` 6,00,000 \times \frac{96}{365} \times \frac{10}{100}$	15,781
	70,159

Thus, amount of discount to be credited to Profit and Loss A/c

Particulars	Amount (`)
Rebate on Bill Discounted (01.04.2009)	68,259
Add: Discount Received	1,70,156
	2,38,415
Less: Rebate on Bills Discounted (31.03.2010)	70,159
	1,68,256

In the Books of Utsav Bank Ltd.
Journal Entries

Date	Particulars		L.F	Debit (`)	Credit (`)
2010	Rebate on Bills Discounted A/c	Dr.		68,259	
March 31	To, Interest and Discount A/c				68,259
	(Transfer of unexpired discount as on 31.03.2010)				
	Interest and Discount A/c	Dr.		70,159	
	To, Rebate on Bills Discounted A/c				70,159
	(Unexpired discount considered as on 31.03.2010)				
	Interest and Discount A/c	Dr.		1,68,256	
	To, Profit and Loss A/c				1,68,256
	(Interest and Discount transferred to P&L A/c.)				

3. **(a) The Balance Sheet of Mr. Upset on 31.3.2011 was as follows:**

Liabilities	**`**	**Assets**	**`**
Sundry Creditors	**93,000**	**Cash in hand**	**11,250**
General Reserve	**45,750**	**Cash at Bank**	**22,500**
Capital	**1,44,000**	**Sundry Debtors**	**51,000**
		Stock	**60,000**
		Furniture	**18,000**
		Motor Car	**27,000**

			Building		**90,000**
		2,82,750			**2,82,750**

A fire occurred in the evening of 31st March, 2012 in his premises destroying all books and records. The cashier absconded with the available cash in the cash box.

Mr. Upset gives you the following information:

- (i) **Sales for the year 2011-12 were 20% higher than the previous years. He sells his goods at cost plus 25%. 20% of the total sales were made in cash. There was no cash purchases.**
- (ii) **From 1st April, 2011 the stock level was raised to `75,000 and maintained at that level throughout the year.**
- (iii) **Collections from Debtors were `90,000 in cash and `3,00,000 by cheques. Business expenses amounted to `63,000 out of which `15,000 was outstanding on 31st March, 2012 and `18,000 was paid by cheques . Creditors were paid by cheques only.**
- (iv) **Analysis of bank statements revealed the following: Payment to creditors-`4,12,500: Personal drawings- `22,500: Cash banked- `2,00,550: Cash withdrawn for office use- `36,000.**
- (v) **Gross profit as per last year's audited account was `90,000. Depreciation should be provided for at 5% on Furniture and Land and Building and at 20% on Motor Car.**

You are required to ascertain the amount defalcated by the cashier and to prepare a Trading & Profit & Loss Account for the year ended 31st March, 2012 and a Balance [redacted]

[10]

Answer:

Mr. Unfortunate

Dr. Trading and Profit & Loss Account for the year ended 31.3.2012 Cr.

Particulars	**Amount (`)**	**Amount (`)**	**Particulars**	**Amount (`)**	**Amount (`)**
To Opening Stock		75,000	By Sales [Note A]		5,40,000
To Purchase [Note 2]		4,32,000	By Closing Stock		75,000
To Gross Profit c/d		**1,08,000**			
		6,15,000			**6,15,000**
To Expenses [18,000+30,000]	48,000		**By Gross Profit b/d**		**1,08,000**
Add: Outstanding	15,000	63,000			
To Depreciation on:					
Land & Building at 5%	4,500				
Furniture at 5%	900				
Motor Car at 20%	5,400	10,800			
To Defalcation of Cash (Written off) [Note D]		14,700			
Net Profit (transferred to capital)		**19,500**			
		1,08,000			**1,08,000**

Balance Sheet as on 31.3.2012

Liabilities	**Amount (`)**	**Amount (`)**	**Assets**	**Amount (`)**	**Amount (`)**

General Reserve		45,750	Furniture	18,000	
Capital: Opening Balance	1,44,000		Less: Depreciation	900	17,100
Add: Net Profit for the year	19,500		Motor Car	27,000	
	1,63,500		Less: Depreciation	5,400	21,600
Add: Profit on Revaluation of Opening stock	*15,000		Land & Buildings	90,000	
	1,78,500		Less: Depreciation	4,500	85,500
Less: Drawings	22,500	1,56,000	Stock-in-trade		75,000
Sundry Creditors		1,12,500	Sundry Debtors [Note C]		93,000
Outstanding Expenses		15,000	Cash at Bank [Note D]		37,050
		3,29,250			**3,29,250**

Note: The Stock on 31.3.2011 was `60,000. On 1.4.2012 it has been raised to `75,000. For this increase of value the rectification entry should be:
Opening Stock A/c…………Dr.
To Capital A/c

Working Notes:

Points to be noted:

The Closing Balances Column = Cash defalcated. The Closing balance of Bank Column will be taken to the Balance Sheet. Defalcated of Cash should be treated as an abnormal loss (here uninsured)

A. Calculation of total sales, Cash sales and credit sales during 2011-12.

Profit=25% on cost=1/4th of cost=1/5th of sale in 2010-2011 G.P.=1/5th of sales=`90,000.
Therefore, Sales were 5 x 90,000=`4,50,000.
Total Sales in 2011-2012=`4,50,000+20% of 4,50,000=`5,40,000
Cash Sales=20% of `5,40,000=`**1,08,000**; Credit Sales=80% of `5,40,000=`**4,32,000.**

B. Calculation of Purchases

From 2011-12 stock level is `75,000. Therefore, both opening and closing stocks are `75,000 each.
G.P. in '2011-'2012=1/5th of 5,40,000=`1,08,000
Opening Stock+ Purchase+ Trading Profit= Sales +Closing Stock
Or, 75,000 +Purchase +1,08,000=5,40,000+75,000
Therefore, Purchase=`**4,32,000**
The entire amount is credit purchase.

Dr. **Debtors account** **Cr.**

Particulars	`	Particulars	`
To Balance b/f	51,000	By Cash A/c	90,000

To Sales A/c (Credit Sales)	4,32,000	By Bank A/c	3,00,000
		By Balance c/f	**93,000**
	4,83,000		**4,83,000**

Dr. **Creditors Account** **Cr.**

Particulars	`	Particulars	`
To Bank A/c	4,12,500	By Balance b/f	93,000
To Balance c/f	**1,12,500**	By Purchase A/c (Credit Purchase)	4,32,000
	5,25,000		**5,25,000**

Dr. **Cash book** **Cr.**

Particulars	Cash (`)	Bank (`)	Particulars	Cash (`)	Bank (`)
To Balance b/f	11,250	25,500	By Business Expenses A/c [*63,000-15,000-18,000]	*30,000	18,000
To Sales A/c (Cash sales)	1,08,000		By Creditors A/c	-------	4,12,500
To Debtors A/c	90,000	3,00,000	By Drawing A/c	-------	22,500
To Cash A/c (Contra) (Cash Banked)		2,00,550	By Bank A/c (Contra)	2,00,550	------
Bank A/c (Contra) (Withdraw for office use)	36,000		By Cash A/c (Contra)		
			By Defalcation of Cash (Bal. fig.)	*14,700	
			Balance c/f		*37,050
	2,45,250	5,26,050		2,45,250	5,26,050

(b) Write note on Project Accounting. **[6]**

Answer:

Project Accounting (sometimes referred to as Job Cost Accounting) is the practice of creating financial reports specifically designed to track the financial progress of projects, which can then be used by managers to aid project management.

Project Accounting differs from standard accounting in that it is designed to monitor the financial progress of a project rather than the overall progress of organizational elements. With Project Accounting, financial reports are specifically created to track the project process. Utilizing Project Accounting provides Project Managers with the ability to accurately assess and monitor project budgets and ensure that the project is proceeding on budget. Project Managers can quickly address any cost overruns and revise budgets if necessary.

Project Accounting also differs from standard accounting in the time period that it is reported. Standard accounting reports financial progress for fixed periods of time, for example, quarterly or annually.

Projects can last from a few days to a number of years. During this time, there may be numerous budget revisions. The project may also be part of a larger overall project. For example, if an organization were constructing a new building that would be the larger project, however telecommunications could be handled as its own project, and as such with a separate project budget.

Costs and revenues that are allocated to projects may be further subdivided into a work breakdown structure (WBS). In utilizing Project Accounting, you have the flexibility to report at any such level and can also compare historical as well as current budgets.

Project Accounting allows companies to accurately assess the ROI of individual projects and enables true performance measurement. Project Managers are able to calculate funding advances and actual versus budgeted cost variances using Project Accounting. As revenue, costs, activities and labours are accurately tracked and measured , Project Accounting provides future benefits to the organization. Future quotes and estimates can be fine-tuned based on past project performance.
Project Accounting can also have an impact on the investment decisions that companies make. As companies seek to invest in new projects with low upfront costs, less risk, and longer-term benefits, the costs and benefit information from a Project Accounting System provides crucial feedback that improves the quality of such important decisions.

4. (a) M and N enter into a joint venture for guaranteeing the subscription at par of 1,00,000 shares of ` 10 each of a Joint Stock Company. They agree to share profit and losses in the ration of 2 : 3. The terms with the company are 4½% commission in cash and 6,000 shares of the company as fully paid-up.

The public took up 88,000 of the shares and the balance share of the guaranteed issue are taken up by M and N who provide cash equally. The commission in cash is taken by partners in the ratio of 4 : 5.

The entire shareholding of the joint venture is then sold through brokers – 2[redacted] a price of ` 8.75; 15% at a price of ` 8.50 and the remaining 10% are ta[redacted] equally at ` 8 per share. The sale proceeds of the shares are taken by the partners equally.

Prepare a Joint Venture Memorandum Account and the separate accounts of M and N in the books of N and M, respectively, showing the adjustment of the final balance between M and N.

Ignore interest and income-tax. [10]

Answer:

Memorandum Joint Venture Account

Dr. **Cr.**

Date	Particulars		Amount `	Date	Particulars	Amount `
?	To M (Cost of Shares)		60,000[A]	?	By M (Commission)	20,000[C]
	To N (Cost of Shares)		60,000		N (Commission)	25,000
	To Profit to Joint Venture				By M (Sale Proceeds)	71,100[B]
					N (Sale Proceeds)	71,100
	M	32,640			By M (Shares taken)	7,200[D]
	N	48,960	81,600		N (Shares taken)	7,200
			2,01,600			2,01,600

In the books of M
Joint Venture with N

Dr. **Cr.**

Date	Particulars	Amount `	Date	Particulars	Amount `

?	To Bank – Cost of Shares	60,000	?	By Bank – Commission	20,000
	,, Share of Profit	32,640		,, Bank – Sale Proceeds	71,100
	,, Bank – final settlement	5,660		,, Shares taken	7,200
		98,300			98,300

In the books of N
Joint Venture with M

Dr. **Cr.**

Date	**Particulars**	**Amount** `	**Date**	**Particulars**	**Amount** `
2011	To Bank – Cost of Shares	60,000	2011	By Bank – Commission	25,000
	,, Share of Profit	48,960		,, Bank – Sale Proceeds	71,100
				,, Shares taken	7,200
				,, Bank – Final settlement	5,660
		1,08,960			1,08,960

Workings:

A. **Purchase of Shares**
(1,00,000 – 88,000) = 12,000 @ ` 10 = ` 1,20,000 provided by M and N equally i.e., ` 60,000 each.

B. **Calculation of Sales**

	6,000	Shares taken as Commission
	12,000	shares purchase
Entire share-holding	**18,000**	

Particulars	`
20% of 10,000 = 4,500 shares @ 9.00 =	40,500
50% of 18,000 = 9,000 shares @ 8.75 =	78,750
15% of 18,000 = 2,700 shares @ 8.50 =	22,950
	1,42,20 0

1,42,200 x ½ = ` 71,100 made by M and N each.

C. **Commission in Cash**
1,00,000 Shares @ ` 10 = ` 10,00,000 x 4½% = ` 45,000 to be taken by M and N in the ratio 4 : 5.

D. **Unsold Shares taken equally by M and N**
10% of 1,800 shares @ ` 8.00 = ` 14,400 x ½ = ` 7,200 each.

(b) The following information is avail from the books of the trader for the period 1st Jan. to 31st March 2012:

I. **Total Sales amounted to `76,000 including the sale of old furniture for `10,000 (book value is ` 12,300). The total cash sales were 80% less than total credit sales.**

II. **Cash collection from Debtors amounted to 60% of the aggregate of the opening Debtors and Credit sales for the period. Discount allowed to them amounted to `2,600.**

III. **Bills receivable drawn during the period totaled `7,000 of which bills amounting to `3,000 were endorsed in favour of suppliers. Out of these endorsed bills, a Bill** receivable for ` 1,500 was dishonoured for non-payment, as the party became insolvent and his estate realized nothing.

IV. **Cheques received from customer of `5,000 were dishonoured; a sum of ` 500 is irrecoverable.**

V. **Bad Debts written-off in the earlier year realized ` 2,500.**

VI. **Sundry debtors on 1st January stood at ` 40,000.**

You are required to show the Debtors Ledger Adjustment Account in the General Ledger. **[6]**

Answer:

In the General Ledger

Debtors Ledger Adjustment Account

Dr. **Cr.**

Date	Particulars	Amount (`)	Date	Particulars	Amount (`)
2012			2011		
Jan 1	To Balance b/d	40,000	Jan 1	By, General Ledger	
March.31	" General Ledger Adjustment A/c :		March.31	Adjustme [redacted]	
				Cash	[redacted]
	- Sales	55,000		Discount Allowed	2,600
	- Bills Receivable Dishonoured	1,500		Bills Receivable	7,000
				Bad Debts	2,000
	- Cheque Dishonoured	5,000		" Balance c/d	32,900
		1,01,500			1,01,500
April 1	To Balance b/d	32,900			

Workings:

i. Computation of Credit Sales

Cash Sales were 80% less than Credit Sales. So, if credit sales are ` 100 Cash Sales will be ` 20; Total Sales (Cash + Credit) will be `120. Total Sales (` 76,000 - ` 10,000) = ` 66,000

Amount of Credit sales will be ` $\frac{66{,}000 \times 100}{120}$ = ` 55,000.

ii. Cash received

Cash received is 60% of opening Debtors plus Credit sales i.e. `40,000 + `55,000 = `95,000

Cash received $95{,}000 \times \frac{60}{100}$ = `57,000.

5. (a) From the following particulars, show the entries in the books of Consignor regarding stock and deficiency in stock:
Goods sent on Consignment 1,000 calculators of `150 each.

Expences incurred by consignor **Expenses incurred by consignee**

Freight	**`3,000**	**Clearing**	**`2,000**
Insurances	**`5,000**	**Storage**	**`1,500**

Consignee sold 950 calculators and he informed that a deficiency of 5 units is disclosed by his actual physical stock taking. [5]

Answer:

In the Books of Consignor
Journal

Date	Particulars		L.F	Debit (`)	Credit (`)
?	Stock on Consignment A/c	Dr.		7,268	
	To, Consignment A/c				7,268
?	Stock Deficiency A/c	Dr.		808	
	To, Consignment A/c				808
?	Profit and Loss A/c	Dr.		808	
	To, Stock Deficiency				808

Workings:

Valuation of Unsold Stock

Particulars	Amount (`)
Total Cost	1,50,000
Add: Consignor's expenses	8,000
Add: Consignees non recurring expenses	3,500
Cost Price of 1000 calculators	1,61,500

$\therefore$ Value of Stock $= \text{`}\, 1{,}61{,}500 \times \frac{45}{1{,}000} = \text{`}\, 7{,}268$

Value of Deficiency of Stock $= \text{`}\, 1{,}61{,}500 \times \frac{5}{1{,}000} = \text{`}\, 808$.

(b) Show adjustment journal entries in the books of Head Office at the end of April 2013 for incorporation of inter-branch transactions assuming that only Head Office maintains different branch account in its books.

A. **Delhi Branch:**

(i) **Received goods from Mumbai - `70,000 and `30,000 from Kolkata.**

(ii) **Sent goods to Chennai - `50,000, Kolkata - `40,000**

(iii) **Bills receivable received - `40,000 from Chennai.**

(iv) **Acceptances sent to Mumbai - `50,000 , Kolkata - `20,000.**

B. **Mumbai Branch (apart from the above):**

(v) **Received goods from Kolkata - `30,000, Delhi - `40,000.**

(vi) **Cash sent to Delhi - `30,000, Kolkata-`14,000.**

C. **Chennai Branch (apart from the above)**

(vii) **Received goods from Kolkata- `60,000**

(viii) **Acceptances and cash sent to Kolkata - `40,000 and `20,000 respectively.**

D. **Kolkata Branch (apart from the above):**

(ix) **Sent goods to Chennai - `70,000**

(x) **Paid cash to Chennai - `70,000**
(xi) **Acceptances sent to Chennai – `30,000.** **[6]**

Answer:

In the books of Head Office
Journal

Date	Particulars		L.F.	Debit (`)	Credit (`)
2011	Mumbai Branch A/c	Dr.		6,000	
April 30	Chennai Branch A/c	Dr.		1,40,000	
	To, Delhi Branch A/c				30,000
	To, Kolkata Branch A/c				1,16,000
	(adjustment entry made by head office in respect of inter-branch transaction)				

Workings:

Inter-Branch Transactions

Particulars	**Delhi**	**Mumbai**	**Che**[redacted]	[redacted]
	`	`		
A. Delhi Branch				
(i) Received goods	1,00,000 (Dr.)	70,000 (Cr.)	-	30,000 (Cr.)
(ii) Sent goods	90,000 (Cr.)	-	50,000 (Dr.)	40,000 (Dr.)
(iii) Received Bills receivable	40,000 (Dr.)	-	40,000 (Cr.)	-
(iv) Sent acceptance	70,000 (Cr.)	50,000 (Dr.)	-	20,000 (Dr.)
B. Mumbai Branch				
(v) Received goods	40,000 (Cr.)	70,000 (Dr.)	-	30,000 (Cr.)
(vi) Sent Cash	30,000 (Dr.)	44,000 (Cr.)	-	14,000 (Dr.)
C. Chennai Branch				
(vii) Received goods			60,000 (Dr.)	60,000 (Cr.)
(viii) Sent Cash and acceptance			60,000 (Cr.)	60,000 (Dr.)
D. Kolkata Branch				
(ix) Sent goods			70,000 (Dr.)	70,000 (Cr.)
(x) Sent Cash			30,000 (Dr.)	30,000 (Cr.)
(xi) Sent acceptances			30,000 (Dr.)	30,000 (Cr.)

30,000 (Cr.)	6,000 (Dr.)	1,40,000 (Dr.)	1,16,000 (Cr.)

(c) To accommodate Asha, Bipasha accepts a bill drawn on 01.01.2012 for `10,000 payable after three months. On the same date, Asha gets the bill discounted @ 24% p.a. On due date, Asha remits the amount of bill to Bipasha to honour the bill and the bill is duly paid by Bipasha on due date. Show the Journal Entries in the books of Asha and Bipasha. [5]

Answer:

Journal Asha

Date	**Particulars**		**Debit (`)**	**Credit (`)**
1.1.2012	Bill Receivable A/c	Dr.	10,000	
	To Bipasha A/c			10,000
	(For bill received from Bipasha after acceptance)			
	Bank A/c	Dr.	9,400	
	Discount on BillsA/c	Dr.	600	
	To Bill Receivable A/c			10,000
	(For discounting of bill @24% p.a. for 3 months)			
	Discount=10,000 x 24/100 x 3/12 = `600			
4.4.2012	Bipasha A/c	Dr.	10,000	
	To Cash A/c			10,000
	(For amount sent to Bipasha on due date to honour the bill)			

Journal Bipasha

Date	**Particulars**		**Debit (`)**	**Credit (`)**
1.1.2012	Asha A/c	Dr.	10,000	
	To Bill Payable A/c			10,000
	(For acceptance of Bill Drawn by Asha)			
4.4.2012	Cash A/c	Dr.	10,000	
	To Asha A/c			10,000
	(For cash received from Asha on due date)			
	Bill Payable A/c	Dr	10,000	
	To Cash A/c			10,000
	(For Payment of bill on due date)			

6. (a) Sales include `400 lakhs representing royalty receivable for supply of knowhow to a Company in South-East Asia. As per agreement the amount is to be received in US Dollars. However, exchange permission was denied to the Company in South-East Asia for remitting the same. [6]

Answer:

As per Para 9.2 of AS-9 on Revenue Recognition, where the ability to assess the ultimate collection with reasonable certainty is lacking at the time of raising any claim, e.g., for escalation of price, export incentives, interest etc., revenue recognition is postponed to the extent of uncertainty involved. In such cases, it may be appropriate to recognize revenue only when it reasonably certain that the ultimate collection will be made.

Thus, 'Sale and other income, should be reduced by `400 lakhs with equivalent credit to Royalty receivable account.

Alternatively, Para 9.3 of AS-9 may be applied after making reasonable assumption as to the timing of uncertainty. According to Para 9.3, of AS-9 when the uncertainty relating to collectability arises subsequent to the time of sale or the rendering of the service, it is more appropriate to make a separate provision to reflect the uncertainty than to adjust the amount of revenue originally recorded.

(b) X who was closing his books on 31.03.2012 failed to take the actual stock which he did only on 9th April 2012 when it was ascertained by him to be worth `35,000.

It was found that sales are entered in the sales book on the same day of dispatch and return inwards in the returns book as and when the goods are received back. Purchases are entered in the purchase day book once the invoices are received.

It was found that sales between 31.03.2012 and 09.04.2012 as per the sales book are `1,720. Purchases between 31.03.2012 and 09.04.2012 as per Purchase Day book are `120, out of these goods amounting to `50 were not received until after the stock was taken.

Goods invoiced during the month of March, 2012 but goods received only on 4th April, 2012 amounted to `100. Rate of Gross Profit is $33\frac{1}{3}\%$ on cost.

Ascertain the value of stock as on 31.3.2012. **[6]**

Answer:

Mr. X

Statement showing Value of Stock on 31.03.2012

Particulars		**Amount (`)**	**Amount (`)**
Stock as on 09.04.2012			35,000
Add: Cost of Goods Sold between 31.03.2012 and 09.04.2012 [Sales at Selling Price - Gross Profit on Sales or `1,720 - 1/4th of 1,720]			1,290
			36,290
Less:			
(a) Purchases made and goods actually received between 31.03.2012 and 09.04.2012:			
Purchase between these dates	120		
Less: Goods not received till 09.04.2012	50	70	
(b) Purchase related to March, 2012 but received on 04.04.2012		100	170
Stock on 31.03.2012			**36,120**

(c) Goods purchased on 24.02.2009 of US $ 20,000 `46.60

Exchange rate on 31.03.2009 `47.00

Date of actual payment 05.06.2010 `47.50

Calculate the loss/gain for the financial years 2008-2009 and 2010-11. **[4]**

Answer:

As per AS – 11 all foreign currency transactions should be recorded by applying the exchange rate at the date of transaction. Therefore goods purchased on 24.02.2009 and corresponding creditor would be recorded at `46.60=US $1 i.e.

20,000× 46.60 = `9,32,000

As per AS -11 at the balance sheet date all monetary items should be reported using the closing rate therefore creditors of US $ 20,000 outstanding on 31.03.2009 will be reported 20,000 × 47.00 = `9,40,000

Exchange loss `(9,40,000 - 9,32,000) i.e. `8,000 should be debited in profit and loss account for 2008-09.

As per AS – 11 exchange difference on settlement on monetary items should be transferred to profit and loss account as gain or loss therefore 20,000 × 47.50 = `9,50,000, `9,50,000 - `9,40,000 = `10,000 will be debited to profit and loss for the year 2010-11.

7. (a) On 1.1.2012, 6% 200 Debentures of ` 100 each of Yuba Ltd. were held as investments by X Ltd. at a cost of ` 18,200. Interest is payable on 31st December.
On 1.4.2012, `4,000 of such Debentures were purchased by X Ltd. @ `98 and on 1.1.2012. `6,000 Debentures were sold at `96 ex-interest. On 1.12.2012 `8,000 Debentures were sold @ `99 cum-interest. On 31.12.2012, X Ltd. sold `10,000 Debentures @ `95.
Prepare Investment Account for 6% Debentures of Yuba Ltd. in the [redacted] income-tax.

Answer:

In the Books of X Ltd.
Investment Account
(6% Debentures of Yuba Ltd. of ` 100 each)

Dr. **Cr.**

Date	Particulars	No. of Debentures	Value `	Date	Particulars	No. of Debentures	Value `
2012	To Balance b/d	200	18,200	2012			
Jan. 1	To Bank – Purchases	40	3,920	Jan. 1	By Bank – Sale	60	5,760
April 1	To Profit & Loss A/c Profit	---	620	Dec. 1	By Bank – Sale	80	7,480*
				Dec 31	By Bank - Sale	100	9,500
		240	22,740			240	22,740

*Actual amount to be received on sale of debenture =`(80×99) - [`(80×100)×6%]×11/12
=`7,920 - `440 =`7,480.

(b) A Life Insurance Company gets its Valuation made once in every two years. Its life assurance fund on 31st Dec. 2012 stood at `55,55,000 before providing for `55,000-being the shareholders' dividend for 2012. Its actuarial valuation on 31st Dec. 2012 disclose a net liability of `35,00,000. An interim bonus of `1,00,000 was paid to the policyholders during the previous two years.
You are required to show
(i) Valuation Balance sheet;
(ii) Net Profit for the period, and
(iii) The Distribution of the Surplus. [7]

Answer:

(i) Preparation of Valuation Balance Sheet

Particulars	`
Life Assurance Fund as on 31.12.2012	55,55,000
Less: Dividend for the year 2012	55,000
	55,00,000

-----------Co. Ltd.
Valuation Balance Sheet
As at 31st December 2012

Liabilities	`	Assets	`
Net Liabilities as per Actuarial Valuation as at 31.12.2012	35,00,000	Life Assurance Fund as per Balance Sheet	55,00,000
Surplus	20,00,000		
	55,00,000		**55,00,000**

(ii) Net Profit for the Period

Particulars	`
Surplus (as per Valuation Balance Sheet)	[redacted]
Add: Interim bonus for the Period	
Therefore, Net Profit for the period	**21,00,000**

(iii) Distribution of the Surplus

Particulars	`
Net Profit (Calculated as above)	21,00,000
Policyholders' Shares @ 95% (i.e. `21,00,000 x 95/100)	19,95,000
Less: Payment of Interim Bonus	1,00,000
Revisionary Bonus to be declared	**18,95,000**
Shareholders' share only @ 5% (i.e `21,00,000 x 5/100)= `**1,05,000.**	

(c) Write a note on Generally Accepted Accounting Principles. [4]

Answer:

A widely accepted set of rules, conventions, standards, and procedures for reporting financial information, as established by the Financial Accounting Standards Board are called Generally Accepted Accounting Principles (GAAP). These are the common set of accounting principles, standards and procedures that companies use to compile their financial statements. GAAP are a combination of standards (set by policy boards) and simply the commonly accepted ways of recording and reporting accounting information.
GAAP is to be followed by companies so that investors have an optimum level of consistency in the financial statements they use when analyzing companies for investment purposes. GAAP cover such aspects like revenue recognition, balance sheet item classification and outstanding share measurement.

8. (a) Write a note on "Valuation Balance Sheet" in relation to Insurance Companies. [7]

Answer:

The balance in the life assurance fund cannot be taken as the profit made by the life insurance business. For the purpose of ascertaining the profit, the insurance company should calculate its net liability on all outstanding policies. This calculation is done by experts called actuaries and is a highly complicated mathematical process. Prior to nationalization, insurance companies were having this computation once in three years. Since nationalization, L.I.C. is having such valuation once in every two years. For calculating net liability, the actuaries calculate the present value of future liability on all the policies in force as well as present value of future premium to be received on policies in force. The excess of the present value of future liability over the present value of future premium is called the net liability.

It is by comparing the life insurance fund and net liability in respect of policies , that profit in respect of life insurance business can be ascertained. If the life insurance fund is more than the net liability, the difference represents the profit. On the other hand, the excess of net liability over the life assurance fund represents the loss for the inter-valuation period.

According to Section 28 of the Life Insurance Corporation Act, 1956, 95% of the profit of life business must be distributed to the policyholders by way of "Bonus" on with-profit policies and the remaining 5% has to be utilized for such purposes as the Government may determine. The profit or loss of life insurance business is ascertained by preparing a statement called 'Valuation Balance Sheet' which is reproduced below.

Valuation Balance Sheet as on..............................

To Net liability as per actuary's valuation	By Life Assurance Fund as per Balance Sheet
To Surplus (Net Profit)	By Deficiency (Net loss)

(b) Briefly define Contra Transaction in relation to Self Balancing Ledger. [3]

Answer:

Contra Transaction or Adverse Balance

Sometimes it may happen that debtors ledger shows a credit balance and creditor ledger shows a debit balance i.e., the adverse balance of debtors ledger and creditors ledger. Usually, credit, balance in debtors ledger may happen on account of advance taken from creditors or allowances given to customers for different products after closing the accounts. Similarly, debited balance in creditors ledger may appear on account of excess payment made or goods returned to creditors after closing the accounts etc. Thus, these contra transactions are to be adjusted. But, one must remember that credit balance in one ledger must not be set off against debit balance of another ledger. These should separately be treated.

(c) A Plant was depreciated under two different methods as under:-

	Straight Line Method	**Written Down Value**
1st year	**3.90**	**10.69**
2nd year	**3.90**	**7.90**
3rd year	**3.90**	**5.84**
4th year	**3.90**	**4.32**
	15.60	**28.75**
5th year	**3.90**	**3.19**

Required:-

i. **If the Company followed Witten Down Value for first four years and decides to switch over to Straight Line Method, what would be the amount of resultant surplus/deficiency?**
ii. **If the Company followed Straight Line Method for first four years and decides to switch over to Witten Down Value, What would be amount of resultant surplus/deficiency? [6]**

Answer:

As per Para 21 of AS-6 when a change in the method of depreciation is made, depreciation should be recalculated in accordance with the new method from the date of the asset coming into use. The deficiency or surplus arising from retrospective recomputation of depreciation in accordance with the new method should be adjusted in the accounts in the year in which the method of depreciation is changed. In case the Change in the method results in deficiency in depreciation in respect of past years, the deficiency should be charged in the statement of profit and loss. In case the change in the method results in surplus should be credited to statement of profit and loss.

i. Surplus of (`28.75 - `15.60) = `13.15 will be written back to profit and loss account.
ii. Deficiency of (`15.60 - `28.75) `13.15 should be charged to profit & loss account.

Such a change should be treated as a change in accounting policy and its effect should be quantified and disclosed.