Paper 5 - Financial Accounting

Time Allowed : 3 Hours **Full Marks : 100**

The figures in the margin on the right side indicate full marks.
Answer Question No. 1 which is compulsory and any five from the rest.

Working Notes should form part of the answer. Whenever necessary, suitable assumptions should be made and indicated in answer by the candidates.

1.
(a) Answer the following questions (give workings) **[2 x 5=10]**

(i) On 01.01.2012, M/s. Three Star and Co. Ltd. purchased machinery for ₹2,00,000. Subsequently, ₹1,00,000 was paid for installation. Assuming that the rate of depreciation was 10% on Reducing Balance Method, determine the Closing Book Value of the Machine as at 31.12.2014.

Answer:

Closing Book Value of the Machine as at 31.12.2014 ₹ 2,18,700.

Year	Opening Book Value – ₹	Rate	Depreciation	Closing Book Value – ₹
2012	3,00,000	10%	30,000	2,70,000
2013	2,70,000	10%	27,000	2,43,000
2014	2,43,000	10%	24,300	2,18,700

(i) A trader acquired Machinery for ₹1,00,000 but included the same in purchase account. He paid ₹20,000 to a supplier which was omitted to be recorded in the books. State the types of errors and pass journal entries to rectify the errors.

Answer:

The first error is error of principle. The capital expenditure has been claimed as revenue expenditure. The second one is, error of omission.

Journal Entries

Particulars		Dr. (₹)	Cr. (₹)
Machinery A/c To Purchase A/c [Being error in purchase A/c being rectified]	Dr.	1,00,000	 1,00,000
Sundry Creditors A/c To Cash A/c [Being the omission to record the transaction now being recorded]	Dr.	20,000	 20,000

(ii) Salary debited to Income and Expenditure Account for the year was ₹96,000. Outstanding salary paid in the beginning of the year and the outstanding salary at the end of the year were ₹12,000 and ₹15,000 respectively. Compute the amount of Salary to be shown in Receipts and Payments Account.

Answer:

	₹
Salary debited to Income & Expenditure A/c	96,000
Add: Outstanding Salary at beginning	12,000
	1,08,000
Less: Outstanding salary at end of the year	15,000
Amount of salary paid during the year to be shown in Receipts & Payments A/c	93,000

(iii) Working capital of a company is ₹ 21,28,000 and total debts are ₹ 42,50,000. If the company's long term debts are ₹ 27,30,000 then calculate the current ratio.

Answer:

Current Liabilities = Total debts – Long Term debts = 42,50,000 – 27,30,000 = ₹ 15,20,000.
Current Assets = W.C. + C.L. = 21,28,000 + 15,20,000 = 36,48,000.

Current Ratio = $\frac{\text{C.A.}}{\text{C.L.}} = \frac{36,48,000}{15,20,000}$ = 2:4:1.

(v) A company is planning to raise funds by making right issue of equity shares to finance its expansion. The existing equity share capital of the company is ₹50,00,000. The market value of its share is ₹42. The company offers to its shareholders the right to buy 2 shares at ₹11 each for every 5 shares held. Calculate theoretical market price of one share after right issue.

Answer:

Market value of 5 shares already held by a shareholder @ ₹42 = ₹210
Add: Price to be paid by him for acquiring 2 shares @₹11 each = ₹22
Total price of 7 shares after right issue = ₹232
Therefore, Theoretical market price of one share = ₹232/7=₹33.14.

(b) From the four alternative answers given against each indicate the correct answer : [5×1=5]

(i) The cost of a Fixed Assets of a business has to be written off over its
(A) Natural Life
(B) Accounting Life
(C) Estimated Economic Life
(D) None of the above

(ii) Shortworkings can be recouped out of
(A) Excess of actual Royalty over minimum rent
(B) Excess of minimum rent over actual Royalty
(C) Profit and Loss Account
(D) Minimum rent

(iii) In Hire Purchase system cash price plus interest is known as
(A) Capital value of asset
(B) Book value of asset

(C) Hire purchase price of asset
(D) None of the above

(iv) The Receipts and Payments Account generally begins with
(A) Credit Balance
(B) Debit Balance
(C) Both Debit and Credit Balance
(D) None of the above

(v) Which of the following is a category of Share Capital of a company?
(A) Authorized Capital
(B) Called up Capital
(C) All of the above
(D) None of the above

Answer:

(i) - (C) Estimated Economic Life
(ii) - (A) Excess of actual Royalty over minimum rent
(iii) - (C) Hire purchase price of asset
(iv) - (B) Debit Balance
(v) - (C) All of the above

(c) State whether the following statements are TRUE (T) or FALSE (F): [1×5=5]

(i) When the shareholder cannot pay call moneys for the shares allotted he can return the shares which is called as surrender of shares.
(ii) Reserve for unexpired risk is applicable for Banking companies.
(iii) Rebate on bills discounted is disclosed in the balance sheet of a Banking company in the assets side as representing the rebate not yet matured.
(iv) Double account system is applicable for electricity companies.
(v) Liquid assets plus stock in trade is called current assets.

Answer :

(i) True — Surender of shares is a voluntary return of shares for the purposes of cancellation by Shareholder. Surender of shares is at the instances of shareholders.
(ii) False — Reserve for unexpired risk is applicable to Insurance Company.
(iii) False — It is shown in the liabilities side included in 'Other Liabilities & Provisions' in Schedule – 5 appeneded to the Balance Sheet.
(iv) True — It is applicable to the Electricity Company.
(v) True — Liquid assets means which is converted cash quickly. The component of liquid assets are Cash, Debtors, B/R etc. and added Stock with the Liquid assets the value which is derived is called Current Assets.

(d) State with reasons which of the following items are to be considered as Capital and which are Revenue: [5×1=5]

(i) Spent ₹20,000 for remodeling the factory and the value of factory enhanced by ₹15,000 out of that.
(ii) Wages paid for the installation of Machine amounted to ₹2,000 and cost of carriage for the same also amounted to ₹500.

(iii) Fees paid to a lawyer for drawing an agreement of lease for an immovable property amounted to ₹2,000.
(iv) The cost of removal of stock from old factory to the new one amounted to ₹1,000.
(v) The expenses incurred for whitewashing the factory building amounted to ₹4,000.

Answer:

(i) ₹15,000 (by which the value of factory is enhanced) for remodeling is a capital expenditure since it will increase the earning capacity of the firm and ₹5,000 (i.e., ₹20,000 – ₹15,000) which is also incurred for remodeling is a revenue expenditure as it does not increase the earning capacity but for maintaining as a regular course of business.
(ii) Wages paid for the installation of machine amounting to ₹2,000 and carriage paid for the purpose amounting to ₹500 are capital expenditure since they all are incidental to the acquisition of fixed assets and its installation. Moreover, they will also increase the earning capacity.
(iii) Fees paid to a lawyer for drafting an agreement of lease amounting to ₹2,000 is a capital expenditure since it is incidental to the acquisition of such lease which is a part of fixed asset.
(iv) The cost of removal of stock amounting to ₹ 1,000 is revenue expenditure.
(v) The expenses which are incurred for whitewashing the factory building amounted to ₹4,000 may be considered as a regular expenditure in order to maintain the factory and, as such, the same should be treated as revenue expenditure.

2. (a) X's accounting year ends on 30.06.2013 but actual stock was not taken till 08.07.2013 on which date it is valued at ₹29,700. The following additional information is available :

- **Sales are entered in the sales book on the date of dispatch and returns inward entered in the credit note register on the day goods are received back.**
- **Purchases are entered in the purchase book on the day invoices are received.**
- **Sales from 01.07.2013 to 08.07.2013 are ₹34,400**
- **Purchases invoiced from 01.07.2013 to 08.07.2013 are ₹2,640 out of which goods ₹240 was not received upto 08.07.2013.**
- **Invoices for goods purchased upto 30.06.2013 were of ₹2,000 of which goods worth ₹1,400 were received between 01.07.2013 to 08.07.2013**
- **Rate of G.P. 33.33% on cost.**

Find out the value of stock on 30.06.2013. **[6]**

Answer:

Statement of valuation of stock as on 30.06.2013

Particulars	Amount (₹)
Value of stock as on 8.07.2013	29,700
Add: Cost of goods sold from 1.7.2013 to 8.7.2013 (75% of ₹ 34,400)	25,800
Purchases 'invoiced' up to 30.06.2013 though goods not received till 08.07.2013 (₹ 2,000 – ₹ 1,400)	600
	56,100

Less : Cost of goods purchased and received during the period from 1.7.2013 to 8.7.2013 (₹ 2,640 – ₹ 240)	2,400
	53,700

Note: Rate of G.P. is 33.33% on cost.

Therefore, Cost = 1/1.3333 or 75% of sales.

(b) Show what journal entries would be passed by the Delhi Head Office to record the following transactions in their Books on 31st March, 2014, the closing date :

- **A remittance of ₹ 70,000 made by Noida Branch to Head Office on 29th March, 2014 and received by the Head Office on 5th April, 2014.**
- **Goods of ₹ 1,26,000 sent by the Head Office to the Ajmer Branch on 28th March, 2014 and received by the later on 4th April, 2014.**
- **Noida Branch paid ₹ 60,000 as salary to a visiting Head Office Official. [3]**

Answer:

Journal of H.O.

	Particulars	Dr. (₹)	Cr.(₹)
(i) 31.3.14	Cash in Transit A/c Dr. To Noida Branch A/c (Being cash remitted by Noida Branch but not received by HO as on date)	70,000	70,000
(ii) 31.3.14	Goods in Transit A/c Dr. To Ajmer Branch A/c (Being goods sent to Bikaner Branch but yet to be received by Branch as on date)	1,26,000	1,26,000
(iii) 31.3.14	Salaries A/c Dr. To Noida Branch A/c (H.O. official's salaries paid by Noida Branch)	60,000	60,000

(c) M Ltd. acquires 2000, 12% Debenture of S Ltd. on 1.4.2013 at ₹ 105 Cum-interest (face value of debentures ₹ 100). Interest is paid on 30th June and 31st December every year. Accounts are closed on 31st December 2013. Ascertain the amount of interest and cost of debentures. [2]

Answer:

Cost of Investment

	₹
Total payments to be made – 2000 × ₹ 105	2,10,000
Less: Inclusion of Interest to be excluded:	
(from 1.1.2013 to 1.4.2013 i.e., 3 months)	

Or ₹ 2,00,000 x (12/100)×(3/12)	6,000
	2,04,000

Cost of Investment ₹ 2,04,000 and the Interest ₹ 6,000.

(d) A Ltd.had issued 11% 5,00,000 debentures of ₹100 each redeemable on 31st March 2014 at a premium of 5%.

The company offered three options to debenture holders as under:

i. 13% Preference shares of ₹10 each at ₹10.50

ii. 14% debentures of ₹100 at par.

iii. Redemption in cash.

The options were accepted as under.

Option i. By holders of 1,00,000 debentures.

Option ii. By holders of 1,00,000 debentures.

Option iii. By holders of 3,00,000 debentures.

The company carried out the redemption. Pass the necessary journal entries. [4]

Answer:

Date	Particulars	Dr. ₹ in lakhs	Cr. ₹ in lakhs
	11 % Debentures A/c Dr. Premium on redemption of debentures A/c Dr. To Debenture Holder A/c	500 25	 525
	Debenture Holder A/c Dr. To 13% Preference share capital account To Securities premium account	105	 100 5
	Debenture Holder A/c Dr. To 14% Debentures A/c	105	 105
	Debenture Holder A/c Dr. To Bank A/c	315	 315

3. (a) Mithil Mukherjee sells two products manufactured in her own factory. The goods are made in two departments, X and Y, for which separate sets of accounts are maintained. Some of the manufactured goods of department X are used as raw materials by department Y, and vice versa.

From the following particulars, you are required to ascertain the total cost of goods manufactured in department X and Y:

Particulars	Department X	Department Y
Total units manufactured	**10,00,000**	**5,00,000**
Total cost of manufactured	**₹10,000**	**₹5,000**

Department X transferred 2,50,000 units to Department Y and the latter transferred 1,00,000 units to the former. [7]

Answer:

Suppose a is the total cost of Department X, and
b is the total cost of Department Y

a = ₹10,000 $+\frac{1}{5}$ b

b = ₹5,000 $+\frac{1}{4}$ a

or, a = ₹ $10{,}000+\frac{1}{5}(5{,}000+\frac{1}{4}a)$

= ₹ $10{,}000+1{,}000+\frac{1}{20}a$

= ₹ $11{,}000+\frac{1}{20}a$

Or, 20 a = ₹2,20,000 + a

Or, 19a = ₹2,20,000

= $\frac{2{,}20{,}000}{19}$

= ₹11,579

Now, b = ₹5,000 $+\frac{1}{4}$ a

= ₹ $5{,}000+\frac{1}{4}\times$`11,579

=₹5,000 + ₹2,895

=₹7,895

Total Cost goods manufactured

Particulars	**Amount (₹) Department X**	**Amount(₹) Department Y**
Cost (already given)	10,000	5,000
Add: Cost of goods transferred	1,579	2,895
	11,579	7,895
Less: Transfer to department	2,895	1,579
Net Cost of Goods manufactured	8,684	6,316

(b) Define Partnership as per Partnership Act,1932. **[2]**

Answer:

According to section 4 of the Partnership Act, 1932 a Partnership is "the relation between persons who have agreed to share the profits of a business carried on by all or any one of them acting for all."

(c) X and Y are partners in a firm sharing profit/loss in the ratio 5:3. They admit their manager Z in the firm for 1/4th share in profit, which would be not less than the remuneration received by him as Manager. As Manager, Z is entitled for a salary of ₹ 32,000 per quarter and a commission of 10% on the net profit after charging such salary and commission. If the profit of the firm for the year ended 31st March, 2014 amounted to ₹ 4,80,000, show the distribution of firm's profit among the partners. [6]

Answer:

Z's share of profit = ₹ 4,80,000 x $^1/_4$	=	₹1,20,000
Z's Remuneration as a manager:		
Salary ₹32,000 × 4 quarters	=	₹ 1,28,000
Commission = ₹(4,80,000 - 1,28,000) $\times \frac{10}{110}$ = ₹3,52,000 x $\frac{10}{110}$	=	₹32,000
		₹ 1,60,000

Hence, Z is entitle for ₹ 1,60,000 and remaining profit ₹ 3,20,000 will be divided between X and Y in the ratio of 5:3

X's share of profit 3,20,000x 5 = ₹2,00,000 Y's
share of profit 3,20,000x3 =₹ 1,20,000

Profit and loss Appropriation Account

Dr. **for the year ending 31st March, 2014** **Cr.**

Particulars	₹	Particulars	₹
To X's capital a/c	2,00,000	By Profit for the year	4,80,000
To Y's capital a/c	1,20,000		
To Z's capital a/c	1,60,000		
	4,80,000		4,80,000

4. (a) Nilima Construction Ltd. undertook a contract on 1st January to construct a building for ₹80 Lakhs. The Company found on 31st March that it had already spent ₹58,50,000 on the construction. Prudent estimate of additional cost for completion was ₹31,50,000.

What amount should be charged to revenue and what amount of Contract Value to be recognised as Turnover in the accounts for the year ended 31st March as per provision of AS – 7 (revised)? [6]

Answer:

Estimated total contract cost	Cost till date+ Further Costs = 58,50,000 + 31,50,000	90,00,000
Percentage of Completion	Cost incurred till date ÷ Estimated total costs = 58.50 ÷ 90.00	65%
Total Expected Loss to be provided for	Contract Price – Total Costs = 80 – 90	10,00,000
Contract Revenue	65% of 80 lakhs	₹52,00,000

Less: Contract Costs		₹58,50,000
Loss on Contract		₹6,50,000
Less: Further provision required in respect of expected loss		(₹3,50,000)
Expected loss recognised		₹10,00,000

The relevant disclosure under AS -7 is as follows —

Particulars	₹ in lakhs
(a) Contract Revenue	52,00,000
(b) Cost Expense Charged	58,50,000
(c) Provision for future losses to be charged	3,50,000

(b) Amra Sobai Society receives an entrance fee of ₹ 10,000 from new members. Members are also required to pay a membership fee of ₹3,000 at the time of entrance. The membership fee permits only membership and all other services or products are paid for separately. Give the accounting treatment for entrance fees and membership fees. [3]

Answer:

(i) Entrance Fees: Entrance Fee of ₹10,000 received from new members should be capitalised.

(ii) Membership Fees: If the Membership Fee permits only membership and all another services or products are paid for separately, or there is a separate annual subscription, the fee should be recognised when received. Hence, the amount of ₹3,000 should be treated as revenue when received.

(c) List the expenses that are not included in Segment expense as per AS-17. [6]

Answer:

Segment expense does not include:

- Extraordinary items as defined in AS-5, Net Profit or Loss for the period, Prior Period items and changes in Accounting Policies,
- Interest expense, including interest incurred on advances or loans from other segments, unless operations of the segment are primarily of a financial nature.
- Losses on sales of investments or losses on extinguishment of debt unless the operations of the segment are primarily of a financial nature.
- Income tax expense
- General administrative expenses, head-office expenses, and other expenses that arise at the enterprise level and relate to the enterprise as a whole. However, cost are sometimes incurred at the enterprise level on behalf of a segment. Such costs are part of segment expense if they relate to the operating activities of the segment and if they can be directly attributed or allocated to the segment on a reasonable basis.

5. (a) The Life Insurance Fund of Bharat Life Insurance Co. Ltd. was ₹25 lakhs on 31.03.2014. Its actuarial valuation on 31.03.2014 disclosed a net liability of ₹21.25 lakhs. An interim bonus of ₹40,000 was paid to the policy holders during previous two years. It is now proposes to carry forward ₹75,000 and to divide the balance between policy holders and the shareholders.

Show the — Valuation Balance Sheet; Net profit for the two-year period; and Distribution of profits. [7]

Answer:

Valuation Balance Sheet as on 31.3.2014

Liabilities	₹	Assets	₹
Net liabilities	21,25,000	Life Insurance Fund	25,00,000
Net profit	3,75,000		
	25,00,000		25,00,000

Net profits for two year period.

	₹
Profit as per valuation balance sheet-	3,75,000
Add : Interim bonus paid	40,000
Net Profit	4,15,000

Distribution of profits:

	₹
Net profits -	4,15,000
Less : Amount proposed for carry forward	75,000
	3,40,000
Share of policy holders – 95% of 3,40,000	3,23,000
Less : Interim bonus	40,000
Amount due to policy holders	2,83,000
Share of shareholders (5% of 3,40,000)	17,000

(b) Rana Limited was incorporated on August 1, 2013. It had acquired a running business of Rana & Co. with effect from April 1, 2013. During the year 2013-14, the total sales were ₹36,00,000.The sales per month in the first half year were half of what they were in the later half year. The net profit of the company, ₹2,00,000 was worked out after charging the following expenses:
(i) Depreciation ₹1,23,000, (ii) Director's fees ₹50,000, (iii) Preliminary Expenses ₹12,000, (iv) office expenses ₹78,000, (v) Selling Expenses ₹72,000 and (vi) Interest to vendors upto August 31, 2013 ₹5,000.
Please ascertain pre-incorporation and post-incorporation profit for the year ended 31st March, 2014. [8]

Answer:

Statement showing pre and post incorporation profit for the year ended 31st March, 2014

Particulars	Total Amount	Basis of Allocation	Pre-incorporation	Post-incorporation
Gross Profit	5,40,000	2:7	1,20,000	4,20,000
Less: Depreciation	1,23,000	1:2	41,000	82,000
Director's fees	50,000	Post	—	50,000
Preliminary Expenses	12,000	Post	—	12,000
Office Expenses	78,000	1:2	26,000	52,000
Selling Expenses	72,000	2:7	16,000	56,000
Interest to vendors	5,000	Actual	4,000	1,000
Net Profit (₹33,000 being pre-incorporation profit is transferred to capital reserve account)	2,00,000		33,000	1,67,000

Working Notes:

i. Sales ratio – The sales per month in the first half year were half of what they were in the later half year. If in the later half year, sales per month is ₹1 then it should be 50 paise per month in the first half year. So sales for the first four months (i.e. from 1st April, 2013 to 31st July,2013) will be 4 x 0.50 = ₹2 and for the last eight months (i.e. from 1st August, 2013 to 31st March, 2014) will be (2 x0.50+6 x 1)=₹7. Thus sales ratio is 2:7.

ii. Time Ratio

1st April,2013 to 31st July,2013 : 1st August,2013 to 31st March,2014 = 1:2

iii. Gross Profit = Net Profit + All Expenses

= ₹(2,00,000 +3,40,000) = ₹5,40,000

6. (a) Calculate Rebate on Bills discounted of Kuber Bank Ltd. as on 31 December,2013 from the following data and show journal entries:

	Date of Bill	₹	Period	Rate of Discount
(i)	**15.10.2011**	**50,000**	**5 months**	**8%**
(ii)	**10.11.2011**	**30,000**	**4 months**	**7%**
(iii)	**25.11.2011**	**40,000**	**4 months**	**7%**
(iv)	**20.12.2011**	**70,000**	**3 months**	**9%**

[6]

Answer:

Calculation of Rebate on Bills Discounted

₹	Due Date	Days after 31 December,2013	Discount Rate	₹
50,000	18/03/2012	31+29+18=78	8%	852.46
30,000	13/03/2012	31+29+13=73	7%	418.85
40,000	28/03/2012	31+29+28=88	7%	673.22
70,000	23/03/2012	31+29+23=83	9%	1,224.59
Total				3,169.12

Date	Particulars	Dr. ₹	Cr. ₹

Dec.31	Interest and Discount Account Dr. To, Rebate on Bills Discounted (Being the provision for unexpired discount required at the end of the year)	3,169.12	3,169.12

(b) List the statistical books to be maintained by a banking company. [2]

Answer:

Following are the statistical books to be maintained by a banking company:

- Books recording the Average Balance in Loan and Advances etc.
- Books recording the Deposits received and amount paid out each month in the various departments.
- Number of Cheques paid.
- Number of Cheques, Drafts, Bills etc. collected.

(c) On 1.1.2012 B Ltd. purchased a Truck from T Ltd. on hire purchase system. At the time of Agreement a sum of ₹ 1,92,000 was paid out of the cash down price of the Truck and the balance was be payable in 3 equal installments together with interest @ 5% p.a. The amount of last installment including interest was ₹ 2,68,800 .

Show the calculation of Cash Price, the interests paid and the Hire Purchase Price of the Truck. [7]

Answer:

Calculation of Cash Price, Interests and H.P. Price

		₹
31.12.2014	Last Installment Less : Interest Included $\left[\frac{5}{105} \times 2,68,800\right]$	2,68,800 12,800
	Amount Paid Towards Principal	2,56,000

The total payment on account of principal:

= Down Payment + 2,56,000 x 3 (as balance would be payable by 3 equal installments)
= ₹ 1,92,000 + ₹ 2,56,000 x 3 = ₹ 9,60,000
∴ Cash Price = ₹ 9,60,000

			₹	Total Payment (₹)
01.01.2012		Cash Price	9,60,000	
	Less :	Down Payment	1,92,000	1,92,000
			7,68,000	
31.12.2012	Add:	Interest [5% of 7,68,000]	38,400	
			8,06,400	
	Less :	Installment Paid (1) [2,56,000 + 38,400]	2,94,400	2,94,400
			5,12,000	
31.12.2013	Add:	Interest [5% of 5,12,000]	25,600	

			5,37,600	
	Less:	Installment Paid (2) [2,56,000 + 25,600]	2,81,600	2,81,600
			2,56,000	
31.12.2014	Add:	Interest [5% of 2,56,000]	12,800	
			2,68,800	
	Less :	Installment Paid (3)	2,68,800	2,68,800
		Hire Purchase Price		10,36,800

	₹
Cash Price	9,60,000
Total Interests Paid [38,400 + 25,600 + 12,800]	76,800
Hire Purchase Price	10,36,800

7. (a) Guri Ltd. took a factory premises on lease on 01.04.11 for ₹2,00,000 per month. The lease is operating lease. During March, 2012, Guri Ltd. relocates its operation to a new factory building. The lease on the old factory premises continues to be live upto 31.12.2014. The lease cannot be cancelled and cannot be sub-let to another user. The auditor insists that lease rent of balance 33 months upto 31.12.2014 should be provided in the accounts for the year ending 31.03.2012. What should Guri Ltd. do? [3]

Answer:

As per AS-29 'Provisions, Contingent Liabilities and Contingent Assets', if an enterprise has a contract that is onerous, the present obligation under the contract should be recognized and measured as a provision. [For a contract to qualify as an onerous contract, the unavoidable costs of meeting the obligation under the contract should exceed the economic benefits expected to be received under it.]In the given case, the operating lease contract has become onerous as the economic benefit of lease contract for the next 33 months up to 31.12.2014 will be nil. However, the lessee, Guri Ltd., has to pay lease rent of ₹66,00,000(i.e. 2,00,000 p.m. for next 33 months)

(b) Opening and Closing Balances of Receipts and Payments Account are given as per Pass Book.
From the following Receipts and Payments Account of Kapil Cricket Club and the additional information prepare the Income & Expenditure Account for the year ended 31st March 2014 and the Balance Sheet on that date:

Receipts and Payments Account of the year ended 31st March, 2014

Date	Receipts	₹	Date	Payment	₹
1.4.13	Cash in hand	4,400	31.3.14	Wages	36,000
	Current Account balance as per pass book	9,400		Ground Rent	12,000
				Cost of Refreshments	90,000
31.3.14	Membership Fees	48,000		Fun Fair Expenses	10,000
	Income from Refreshments	1,20,000		Equipment Purchased	40,000
	Fun Fair Receipts	3,000		Administrative Expenses	4,500
	Interest received from Bank	500		Repairs and Maintenance	16,000
	Interest @ 7.5 p.a. on Securities	15,000		Caretaker's Salary	15,000
	Sale Proceeds of Plant and Equipment	28,200		Cash in hand	5,350
	Net Proceeds of Fund Raising match	35,350		Current Account balance as per Pass Book	35,000
		2,63,850			2,63,850

Additional Information:

	On 01.04.2013	On 31.03.2014
Value of Plant and equipment	**45,000**	**50,000**
Membership fees due	**5,000**	**2,000**
Interest not entered in the pass book	**---**	**150**
Cheques issued for repair works, but not presented	**1,500**	**3,500**
Administrative expenses outstanding	**1,000**	**500**

Depreciation is to be provided on the closing balance of plant and equipment at 10% Bonus payable to workers ₹ 3,000 is to be provided. Caretaker's Salary in the Receipts and Payments Account pertains to the accounting year 2012-13. The Salary for 2013-14 ₹18,000 has not yet been paid. **[12]**

Answer:

Kapil Cricket Club
Income and Expenditure Account
for the year ended 31st March, 2014

Dr. **Cr.**

Expenditure	Amount ₹	Amount ₹	Income	Amount ₹	Amount ₹
To Wages		36,000	By Bank interest	500	
'' Ground Rent		12,000	Add : Accrued Interest	150	650
'' Fun Fair Expenses		10,000	'' Interest on Securities		
''Administration Expenses :			'' Membership Fees:		15,000
Amount Paid	4,500		'' Amount Received		
Add : Outstanding on 31.3.14	500		Add: Outstanding for current year	48,000	
	5,000			2,000	
Less : Outstanding on 1.4.13	1,000	4,000			
'' Repairs & Maintenance:					
Amount Paid (as per Pass Book)			Less: Outstanding	50,000	
Add: Cheque not presented	16,000		amount of last year		45,000
	3,500			5,000	
Less: Related to Last year	19,500	18,000	''Profit from Sale of Refreshments :		
	1,500				
'' outstanding Bonus to Workers		3,000	Income from Sale		
			Less : Cost of Refreshment	1,20,000	30,000
''Outstanding Caretaker's Salary		18,000		90,000	
''Loss on Sale of Plant & Equipment		6,800	''Collection from Fun Fair		3,000
'' Depreciation on Plant & Equipment [10% of 50,000]		5,000	''Net Proceeds' from Fun Raising Match		35,350
'' Surplus [Excess of Income over Expenditure]		16,200			
		1,29,000			1,29,000

Balance Sheet as on 31.12.2014

Liabilities	Amount ₹	Amount ₹	Assets	Amount ₹	Amount ₹
Outstanding Liabilities for :			Cash in hand		5,350
Expenses (General)	500		Cash at Bank		31,500
Bonus	3,000		Accrued Interest		150
Salary	18,000	21,500	Membership Fees Receivable		2,000

Capital Fund : Opening Balance Add : Surplus	 2,46,300 16,200	 2,62,500	Investment in Securities Plant & Equipment : Less : Depreciation	 50,000 5,000	2,00,000 45,000
		2,84,000			2,84,000

Working Notes:

A. Current Account balances as per Cash Book [which these should be]

	1.4.13	31.3.14
Balance as per Pass Book	9,400	35,000
Less : Cheques issued for Repair works, but not presented	1,500	3,500
	7,900	31,500

Interest not entered in the Pass Book need not be adjusted.

B. Profit or loss on Sale of Plant and Equipment

Plant and Equipment Account

Dr. Cr.

Particulars	Amount ₹	Particulars	Amount ₹
To Balance b/f	45,000	By Bank A/c (Sale)	28,200
'' Bank A/c (Purchase)	40,000	'' Loss on Sale (Balance Figure)	*6,800
		'' Balance c/f (before depreciation)	50,000
	85,000		85,000

C. Capital Fund as on 1.4.13

Balance Sheet as on 1.4.2013

Liabilities	Amount ₹	Assets	Amount ₹
Outstanding Caretaker's Salary	15,000	Cash in hand	4,400
Outstanding Administrative Expenses	1,000	Cash at Bank	7,900
Capital Fund [Excess of Assets over Liabilities]	2,46,300	Outstanding Membership Fees Receivable	5,000
		Investment in Securities $\left[\frac{100}{75} \text{x} 15,000\right]$	2,00,000
		Plant and Equipment	45,000
	2,62,300		2,62,300

8. Write Short Notes on any three : [3x5=15]

(a) Surrender value of Policy

(b) Accounting convention of consistency;

(c) Changes in Accounting Policies and its disclosure as per AS – 5

(d) Distinction between revaluation account and realization account

Answer:

(a) Surrender value of policy:

In the case of life policy, the policy normally has value only when it matures. But to facilitate the promotion of business insurance companies assign value to the policy on the basis of the premium paid. Insurance companies will be prepared to pay such value on the surrender of the policy by a needy policy holder desiring to realize the policy. Therefore the value is referred to as 'surrender value'. Surrender value is usually nil until at least two premiums are paid. Amount paid as surrender value is expenditure and is similar to claims paid. Thus surrender value is the amount the policy holder will get from the life insurance company if he decides to exit the policy before maturity.

(b) Accounting convention of consistency:

In order to enable the management to draw important conclusions regarding the working of a company over a number it is essential that accounting practices and methods remain unchanged from one accounting period to another. According to AS-1 consistency is a fundamental assumption and it is assumed that accounting policies are consistent from one period to another. Where this assumption is not followed, the fact should be disclosed with proper reasons.

Kohler has talked about three types of consistencies:
(i) Vertical consistency- consistency maintained within the interrelated financial statements of the same date.
(ii) Horizontal consistency- this enables the comparison of performance of the organization in one year with its performance of previous/ next year.
(iii) Third dimensional consistency- Performance of one organization can be compared with that of another organization in the same industry.

(c) Changes in Accounting Policies and its disclosure as per AS - 5

Answer:

Changes in Accounting Policies

In the following circumstances changes in accounting policies are made:

- For the compliance of accounting standard
- For the compliance of the statute or law
- For better and appropriate presentation of the financial statement.

Disclosure of change in Accounting Policies:

- Material effect should be shown in financial statement to reflect the effect of such change.
- This effect should be disclosed in the year of change.
- If the effect of change is not ascertainable, the fact should be disclosed.
- If the effect of change is not material for current period, but it is material effect for the later period, then fact should be disclosed in the period of change.

(d) Distinction between revaluation account and realization account:

Revaluation Account	Realization Account
1. It is prepared to record the effect of revaluation of Assets and Liabilities.	1. It records the realisation of various assets and payments of various liabilities.

2. It is prepared to determine the net Profit/Loss on revaluation	2. It is prepared to determine the net profit/loss on realisation
3. This is prepared at the time of admission and retirement of partners. On the other hand it is prepared by any entity for giving effect to the actual value of Assets.	3. This is prepared on dissolution of firm or liquidation of companies.
4. Entries relating to assets and liabilities are made on the basis of difference between the book values and revalued figures.	4. Entries relating to assets and liabilities are made on the basis of their book values and actual payments.
5. As a result of entries passed in this account, the accounts of assets and liabilities revalued, are not closed.	5. As a result of entries passed in this account, the accounts of assets and liabilities are closed.
6. This account may be required to be prepared at a number of occasions during the life time of a firm.	6. This account is prepared only once during the lifetime of a firm.