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) The share capital of A Ltd. consists of 2,00,000 equity shares of ₹ 10 each, and 50,000 preference shares of ₹ 100 each, fully called up. Its securities premium account shows a balance of ₹ 80,000 and general reserve of ₹ 14,00,000. The company decides to buy-back 40,000 equity shares of ₹ 12 each.

Pass the journal entry showing the transfer of amount from General Reserve to Capital Redemption Reserve only.

Answer:

Particulars	Dr. (₹)	Cr. (₹)
General Reserve A/c Dr. To Capital Redemption Reserve A/c (Transfer of nominal amount of equity shares bought-back.)	4,00,000	 4,00,000

(ii) 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

(iii) Salary debited to Income and Expenditure Account for the year was ₹97,000. Outstanding salary paid in the beginning of the year and the outstanding salary at the end of the year were ₹11,000 and ₹16,000 respectively. Compute the amount of Salary to be shown in Receipts and Payments Account.

Answer:

	₹
Salary debited to Income & Expenditure A/c	97,000

Add: Outstanding Salary at beginning	11,000
	1,08,000
Less: Outstanding salary at end of the year	16,000
Amount of salary paid during the year to be shown in Receipts & Payments A/c	92,000

(iv) Amrit Ltd. has signed at 31st Dec, the Balance Sheet date, a contract where the total revenue is estimated at ₹30 Crores and total cost is estimated at ₹40 Crores. No work began on the contract. Is the Contractor required to give any accounting effect for the year ended 31st December?

Answer:

There is an Expected Loss of ₹10 Crores i.e. ₹(40-30). Such loss should be recognised in the Profit and Loss Statement as per AS-7, even though work has not commenced.

(v) Calculate the interest income to be recognised for X Bank Ltd. for the year ended 31.03.2013 from the following information: (₹ in Crores)

Interest	Total Interest collected	Earned but not collected	
		On PA	On NPA
Interest on Cash Credit	2,000	800	840
Interest on Overdraft	600	200	700
Interest on Term Loan	2,000	80	1,000

Answer:

		(₹ in Crores)
Interest on Cash Credit	(2,000 + 800)	= 2,800
Interest on Overdraft	(600 + 200)	= 800
Interest on Term Loan	(2,000 + 80)	= 2,080
Interest income to be recognised		5,680

(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 are 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 drafting 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 30.06.2014 but actual stock was not taken till 08.07.2014 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 01.07.2014 to 08.07.2014 are ₹34,400**
- **Purchases invoiced from 01.07.2014 to 08.07.2014 are ₹2,640 out of which goods ₹240 was not received upto 08.07.2014.**
- **Invoices for goods purchased upto 30.06.2014 were of ₹2,000 of which goods worth ₹1,400 were received between 01.07.2014 to 08.07.2014**
- **Rate of G.P. 33.33% on cost.**

Find out the value of stock on 30.06.2014. **[6]**

Answer:

Statement of valuation of stock as on 30.06.2014

Particulars	Amount (₹)
Value of stock as on 8.07.2014	29,700
Add: Cost of goods sold from 1.7.2014 to 8.7.2014 (75% of ₹ 34,400)	25,800
Purchases 'invoiced' up to 30.06.2014 though goods not received till 08.07.2014 (₹ 2,000 – ₹ 1,400)	600
	56,100

Less : Cost of goods purchased and received during the period from 1.7.2014 to 8.7.2014 (₹ 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, 2015, the closing date :

- **A remittance of ₹ 87,500 made by Noida Branch to Head Office on 29th March, 2015 and received by the Head Office on 5th April, 2015.**
- **Goods of ₹ 1,57,500 sent by the Head Office to the Ajmer Branch on 28th March, 2015 and received by the later on 4th April, 2015.**
- **Noida Branch paid ₹ 75,000 as salary to a visiting Head Office Official. [3]**

Answer:

Journal of Head Office

	Particulars	Dr. (₹)	Cr.(₹)
(i) 31.3.15	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)	87,500	87,500
(ii) 31.3.15	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)	1,57,500	1,57,500
(iii) 31.3.15	Salaries A/c Dr. To Noida Branch A/c (H.O. official's salaries paid by Noida Branch)	75,000	75,000

(c) M Ltd. acquires 3,000, 14% Debenture of Kumud Ltd. on 1.4.2014 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 2014. Ascertain the amount of interest and cost of debentures. [2]

Answer:

Cost of Investment

	₹
Total payments to be made – 3,000 × ₹ 105	3,15,000
Less: Inclusion of Interest to be excluded:	
(from 1.1.2013 to 1.4.2013 i.e., 3 months)	

Or ₹ 3,00,000 x (12/100)×(3/12)	10,500
	3,04,500

Cost of Investment ₹ 3,04,500 and the Interest ₹ 10,500.

(d) Mr. M Purchased 500 equity shares of ₹100 each in PP Ltd. for ₹62,500 inclusive of brokerage and stamp duty. Some years later the company decided to capitalize 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 one PP Ltd. were quoted at ₹175 per share. After the capitalization, the shares were quoted at ₹92.050 per share. Mr. M sold the Bonus shares and received ₹90 per share. Show Investment Account in Mr. M's Book on average cost basis as per AS – 13. [4]

Answer:

Investment Account (Equity Shares of PP Ltd.)

Dr. **Cr.**

Particulars	**Nominal Value ₹**	**Cost ₹**	**Particulars**	**Nominal Value ₹**	**Cost ₹**
To, Balance b/d	50,000	62,500	By, Bank A/c	50,000	45,000
To, Bonus Shares A/c	50,000	-	By, Bank c/d	50,000	31,250
To, Profit & Loss A/c (Profit on Sale)	-	13,750			
	1,00,000	76,250		1,00,000	76,250

Working Notes:

(i) Profit on sale of bonus shares = (45,000 – (₹62,500 × 50,000/1,00,000) = ₹13,750

(ii) Value of investment will be least of market value ₹46,250 (i.e. 92.50% of ₹50,000) or average cost price (i.e. ₹31,250).

3. (a) Vikram & Betal Ltd. firm has a sales of ₹12 crores, Variable cost ₹7 crores and Fixed cost of ₹1.30 crores. The firm has debt and equity resources worth of ₹14 crores and ₹10 crores respectively. With the data given show:

(i) The firm's ROI.

(ii) EBIT if sales decline to ₹8 crores.

(ii) If the industry's assets turnover is 4 times, does the firm has high or low asset turnover? The cost of debt is 12%. Ignore taxation. [7]

Answer:

		(₹ Crore)
	Sales	12.0
Less	Variable cost	7.00

	Contribution	5.00
Less	Fixed Cost	1.30
	EBIT	3.70
Less:	Interest	1.68
	EBT	2.02
	Total Investment = Debt + Capital	
	14+10 =	24.00
		₹Crores
(i)	ROI = EBIT/Total Investment = 3.70/24.00 =	15.42%
(ii)	If Sales declines to 8 crores	
	Sales	8.0
	As Sales declines by 33.33% , Variable Cost also declines by 33.33%	4.67
	Contribution	3.33
	Less: Fixed Cost	1.30
	EBIT	2.03
	Less: Interest	1.68
	EBT	0.35
(iii)	Asset turnover = Sales/Total asset =8/24=0.3333	

The firm has a much lower Asset turnover as compared to the industry.

(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)× $\frac{10}{110}$ = ₹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 3,20,000 x 5 = ₹2,00,000
Y's share of profit 3,20,000 x 3 =₹ 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 To Y's capital A/c To Z's capital A/c	2,00,000 1,20,000 1,60,000	By Profit for the year	4,80,000
	4,80,000		4,80,000

4. **(a) A Ltd. purchased fixed assets costing ₹ 5,100 lakhs on 01.01.13 and the same was fully financed by foreign currency loan (U.S. Dollars) payable in three annual equal installments. Exchange rates were 1 Dollar = ₹ 42.50 and ₹ 45.00 as on 01.01.13 and 31.12.13 respectively. First installment was paid on 31.12.103. The entire difference in foreign exchange has been capitalized.**

You are required to state, how these transactions would be accounted for. [6]

Answer:

As per para 13 of AS 11 (Revised 2003) 'The Effects of Changes in Foreign Exchange Rates', exchange differences arising on the settlement of monetary items or on reporting an enterprise's monetary items at rates different from those at which they were initially recorded during the period, or reported in previous financial statements, should be recognized as income or expenses in the period in which they arise. Thus exchange differences arising on repayment of liabilities incurred for the purpose of acquiring fixed assets are recognized as income or expense.

Calculation of Exchange Difference:

$$\text{Foreign currency loan} = \frac{₹\ 5,100\ \text{lakhs}}{₹\ 42.50} = 120\ \text{lakhs US Dollars}$$

Exchange difference = ₹120 lakhs US Dollars × (45.00 – 42.50)

= ₹ 300 lakhs (including exchange loss on payment of first installment)

Therefore, entire loss due to exchange differences amounting ₹ 300 lakhs should be charged to Profit And Loss Account for the year.

(b) Discuss the discloser requirement of Accounting Standard-6. [3]

Answer:

Disclosure requirements: Following information should be disclosed in the financial statements as per AS- 6

- Historical cost or revalued amount of each class od depreciable assets;
- Total depreciation for the period for each class of assets; and
- Accumulated depreciation
- Depreciation methods used; and
- Depreciation rates or useful lives, if different from rates specified in the statute.

(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 ₹50 lakhs on 31.03.2014. Its actuarial valuation on 31.03.2014 disclosed a net liability of ₹42.50 lakhs. An interim bonus of ₹80,000 was paid to the policy holders during previous two years. It is now proposes to carry forward ₹1,50,000 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	42,50,000	Life Insurance Fund	50,00,000
Net profit	7,50,000		
	50,00,000		50,00,000

Net profits for two year period.

	₹
Profit as per valuation balance sheet-	7,50,000
Add : Interim bonus paid	80,000
Net Profit	8,30,000

Distribution of profits:

	₹
Net profits -	8,30,000
Less : Amount proposed for carry forward	1,50,000
	6,80,000
Share of policy holders – 95% of 6,80,000	6,46,000
Less : Interim bonus	80,000
Amount due to policy holders	5,66,000
Share of shareholders (5% of 6,80,000)	34,000

(b) Uday Ltd. was incorporated on August 1, 2013. It had acquired a running business of Rana Ltd. 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) H Ltd. provides you the following information:

- **Issued Capital : 2,00,000 Equity Shares of ₹10 each**
- **Reserves & Surplus : Capital Reserve ₹10,00,000**
  Securities Premium ₹18,00,000
  Revenue Reserve ₹30,00,000
  Profit & Loss A/c ₹40,00,000
- **Resolution passed to buy back 25% of its Equity Share Capital @ ₹50 per share.**
- **Pass journal entries to record the above transactions assuming that the company achieved the target of buy-back. [6]**

Answer:

Journal Entries

Date	Particulars	Dr. ₹	Cr. ₹
?	Equity Shares Buy Back A/c Dr. To, Bank A/c (Being the payment made on buy-back of 50,000 shares @₹50)	25,00,000	 25,00,000
?	Equity Share Capital A/c Dr. Securities Premium A/c Dr. Revenue Reserve A/c Dr. To, Equity Share Buy-Back A/c (Being the cancellation of equity shares bought back)	5,00,000 18,00,000 2,00,000	 25,00,000
?	Revenue Reserve A/c Dr. To, Capital Redemption Reserve A/c (Being the amount equal to nominal value of equity shares bought back out of free reserves transferred to Capital Redemption Reserve)	5,00,000	 5,00,000

(b) A machinery is sold on hire purchase. The terms of payment are four annual instalments of ₹ 6,000 at the end of each year commencing from the date of agreement. Interest is charged @ 20% and is included in the annual payment of ₹ 6,000.

Show Machinery Account and Hire Vendor Account in the books of the purchaser who defaulted in the payment of the third yearly payment where upon the vendor repossessed the machinery. The purchaser provides depreciation on the machinery @ 10% per annum on written down value basis.

All workings should form part of your answer. [9]

Answer:

In the books of Hire Purchaser
Machinery Account

Dr. **Cr.**

Particulars	Amount ₹	Particulars	Amount ₹
1st Year To, Hire Vendor A/c	 15,533	By, Depreciation A/c By, Balance c/d	1,553 13,980
	15,533		15,533
2nd Year To, Balance b/d	 13,980	By, Depreciation A/c By, Balance C/d	1,398 12,582
	13,980		13,980
3rd Year To, Balance b/d	 12,582	By, Depreciation A/c By, Hire Vendor A/c By, Balance C/d	1,258 11,000 324
	12,582		12,582

Hire Vendor Account

Dr. **Cr.**

Particulars	Amount ₹	Particulars	Amount ₹
To, Bank A/c To, Balance	6,000 12,639	1st year By, Machinery A/c By, Interest A/c	 15,533 3,106
	18,639		18,639
To, Bank A/c To, Balance	6,000 9,167	2nd year By, Machinery A/c By, Interest A/c	 12,639 2,528
	15,167		15,167
To, Machinery A/c (Repossession vendor)	11,000	3rd year By, Balance b/d By, Interest	 9,167 1,833
	11,000		11,000

Working Notes:

	Installment Amount	Interest ₹	Principal ₹
4th Instalment	6,000		
Interest 20/120	1,000	1,000	5,000
	5,000		
Add: 3rd Instalment	6,000		
	11,000		
Interest 20/120	1,833	1,833	4,167
	9,167		
Add: 2nd Instalment	6,000		
	15,167		
Interest 20/120	2,528	2,528	3,472
	12,639		

Add: 1st Instalment	6,000		
	18,639		
Interest 20/120	3,106	3,106	2,894
	15,533	8,467	15,533

7. (a) State four items which are not to be included in determining the cost of inventories in accordance with paragraph 6 of AS 2? [3]

Answer:

In determining the cost of inventories in accordance with paragraph 6 of AS 2 , it is appropriate to exclude certain costs and recognize therein as expenses in the period in which they are incurred. Examples of such cost are-

- abnormal amounts of waste materials, labour or other production costs,
- storage costs unless those costs are necessary in the production process prior to a further production stage,
- administrative overheads that do not contribute to bring the inventories to their present location and condition, and
- selling and distribution cost.

(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			
"Administration Expenses :			" Interest on Securities		15,000
Amount Paid	4,500		" Membership Fees:		
Add : Outstanding on 31.3.14	500		" Amount Received	48,000	
	5,000		Add: Outstanding for current year	2,000	
Less : Outstanding on 1.4.13	1,000	4,000		50,000	
" Repairs & Maintenance:					
Amount Paid (as per Pass Book)					
Add: Cheque not presented	16,000		Less: Outstanding		
	3,500		amount of last year	5,000	45,000
	19,500				
Less: Related to Last year	1,500	18,000	"Profit from Sale of Refreshments :		
" Outstanding Bonus to Workers		3,000	Income from Sale	1,20,000	
			Less : Cost of Refreshment	90,000	30,000
"Outstanding Caretaker's Salary		18,000			
"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 :			Investment in Securities		2,00,000
Opening Balance	2,46,300		Plant & Equipment :	50,000	
Add : Surplus	16,200	2,62,500	Less : Depreciation	5,000	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 $\left[\frac{100}{7.5} \times 15,000\right]$	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) Disclosure requirement as per AS – 11

(e) Over/Under Subscription

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

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) Disclosure requirement as per AS – 11

Following are the matters to be disclosed as per AS – 11:

- Amount of exchange difference included in the net profit or loss.
- Amount accumulated in foreign exchange translation reserve.
- Reconciliation of opening and closing balance of foreign exchange translation reserve.
- If the reporting currency is different from the currency of the country in which entity is domiciled, the reason for such difference.

A change in classification of significant foreign operation needs following disclosures —

- Nature of change in classification;
  The reason for the change;
- Effect of such change on shareholders fund;
- Impact of change on net profit or loss for each prior period presented;
- The disclosure is also encouraged of an enterprise's foreign currency risk management policy.

(e) Over/Under Subscription:

Where the total number of shares for which are received is less than the number of shares issued, it is a case of under subscription. If the actual applications received are more than the shares offered to the public it is case of over subscription.
In the case of under subscription as the applications received are less than those required for minimum subscription, the company cannot processed with the allotment. The entire application money has to be refunded. If the subscription for shares are more than what is offered to the public the Board of Directors may make allotment in full to required number of applicants and reject the other applications. Alternatively, they may allot shares proportionately to the applications received to all applicants which is known as pro-rata allotment. It is possible that they may resort to selective partial allotment by which the pro-rata allotment may be different for various ranges of share applications received.