

Paper 5- Financial Accounting

Full Marks:100

Time allowed: 3 hours

[This paper contains 7 questions. All questions are compulsory, subject to instruction provided against each question. All workings must form part of your answer.]

1. Answer All questions (give workings)

[2 x10=20]

(i) 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:

- Certain cheques amounting to ₹8,500 had not been presented for payment as on 31st March, 2013.
 - Interest on investment of ₹2,500 collected by the banker appears only in the bank statement.
 - The debit side of the cash book had been overcast by ₹1,000.
- Determine the balance as per pass book.

(ii) Indian Insurance Co. Ltd. Furnishes you with the following information:

During 2013, the following business was conducted:

[₹ in crores]

Particulars	Marine	Fire	Misc
Premia Collected From:			
(a) Insureds in respect of policies issued	36.0	43.0	12.0
(b) Other insurance companies in respect of risks undertaken	14.0	5.0	4.0
Premia paid/ payable to other insurance companies on business ceded	13.4	4.3	7.0

Calculate the Net premium Income.

(iii) Simptronic sells computers on Hire Purchase basis at cost plus 20%. Terms of sale are ₹24,000 down payment and eight monthly instalments of ₹ 12,000 for each computer. Three computers were repossessed for non-payment of instalments and to be valued at 50% of cost price. Compute the value of repossessed computers.

(iv) Calculate the amount of Insurance claim to be lodged based on the following information:

Value of stock destroyed by fire	₹ 1,80,000
Insurance policy amount (subject to average clause)	₹ 1,30,000
Value of stock salvaged from fire	₹ 80,000

(v) The following information has been extracted from the books of a lessee for the year 2013-2014:

Particulars	Amount(₹)
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Shortworkings lapsed	32,000
Shortworkings recovered	48,000
Actual royalty based on output	1,20,000

- (vi) X, Y and Z are sharing Profits and losses in the ratio of 5 : 3 : 2. Calculate the new profit sharing ratio and the sacrificing ratio if Z acquires 1/10 th share equity from X and Y.
- (vii) Safety Insurance Company Ltd. received ₹ 1,18,000 as Premium on New Policies and ₹24,000 as Renewal Premium. The Company received ₹18,000 towards Re-insurance Accepted and paid ₹14,000 towards Re-Insurance Ceded. How much will be credited to Revenue Account towards Premium?
- (viii) On 1st January Piku and Niki draw bills on each other at 3 months for ₹15,000 for their mutual accommodation. They discount each other's bill at 10% p.a. and, on maturity, each party honours his own acceptance.
Show the journal entries made in the books of Piku.
- (ix) List the items to be excluded from Contract Cost.
- (x) H Ltd maintains Self-Balancing Ledgers preparing Control Accounts at the end of each calendar month. On 3rd January, the accountant of the company located the following errors in the books of account –
- The Sales Book of previous month, i.e., December, was undercast by ₹ 2,000.
 - Goods invoiced at ₹ 31,200 were returned to Supplier, M/s. Mega Ltd but no entry was made in the books for this Return made on 28th December.
- Pass necessary Journal Entries.

2. (Answer any two)

- (a) M Ltd. purchased a plant for US \$20,000 on 31st December, 2012 payable after 4 months. The company entered into a forward contract for 4 months @₹ 48.85 per dollar. On 31st December, 2012, the exchange rate was ₹47.50 per dollar.
How will you recognize the profit or loss on forward contract in the books of M Limited for the year ended 31st March, 2013. [4]
- (b) Discuss Prior Period item as per AS – 5. [4]
- (c) Mr. Right sold goods on credit to various customers. Details related to one of the customer, Mr. Best, is as under:
- (i) Goods sold on credit ₹ 5,00,000
 - (ii) Goods returned by the customer ₹ 35,000 due to defective quality, credit note raised but not recorded.
 - (iii) Payment received from customer in cash ₹ 1,00,000 and by cheques ₹ 2,30,000. Out of cheques received, a cheque of ₹ 38,000 was dishonoured by bank.
 - (iv) Customer accepted two Bills of ₹19,000 and ₹ 56,000 for 2 months and 3 months respectively.
 - (v) Credit note raised against the customer ₹ 3,400 for excess payment charged against one of the consignment.
- Mr. Best, the customer is in need to ascertain the actual balance due to Mr. Right. Prepare a Reconciliation Statement. [4]

3. (Answer any two)

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- (a) (i)** How will you deal with the following items while preparing the Income and Expenditure Account for the year ending on March 31, 2013?

	As at 1.4.2012 ₹	As at 31.3.2013 ₹
Creditors for Sports Materials	4,600	11,800
Stock of Sports Materials	15,000	30,400

During 2012 – 2013, the payments made to these Creditors amounted to ₹ 56,800 and Cash Purchases amounted to ₹ 16,000. **[5]**

- (ii)** The following particulars are available from the books of Good Ltd. :
- April 1, 2012 Provision for Bad Debts ₹ 1,750.
 During 2012 Bad Debts written off ₹ 1,500.
 On 31st March 2013 balance of Sundry Debtors ₹ 64,800. Further bad debts to be written off amounted ₹ 800. It realized ₹ 980 written off as bad in 2010 and a provision of 5% was to be made on 31.03.2013. Show the Bad Debts Account for the year 2012-2013 assuming that the concern adjusts provision through the Bad Debts Account. **[5]**
- (iii)** What is meant by Foreign Branches and Independent Branches? **[2]**

- (b)** Ram, Laxman and Bharat were partners sharing Profits and Losses in the ratio of 5:3:2 respectively. On 31st March, 2013, Balance Sheet of the firm stood as follows:

Liabilities	Amount (₹)	Assets	Amount (₹)
Capital A/c's		Buildings	1,37,500
Ram	1,25,000	Furniture	62,500
Laxman	1,00,000	Stock	1,05,000
Bharat	70,000	Debtors	50,000
Creditors	83,750	Cash at Bank	28,000
Outstanding Expenses	4,250		
	3,83,000		3,83,000

On 31st March, 2013 Ram decided to retire and Laxman and Bharat decided to continue as equal partners. Other terms of retirement were as follows:

- (i) Building be appreciated by 20%
- (ii) Furniture be depreciated by 10%
- (iii) A provision of 5% be created for bad debts on debtors.
- (iv) Goodwill be valued at two years purchase of profit for the latest accounting year. The firm's profit for the year ended 31st March 2013 was ₹ 62,500. No goodwill account is to be raised in the books of accounts.
- (v) Fresh capital be introduced by Laxman and Bharat to the extent of ₹ 25,000 ₹ 87,500 respectively
- (vi) Out of sum payable to retiring partner Ram, a sum of ₹ 1,12,500 be paid immediately and the balance be transferred to his loan account bearing interest @ 12% p.a. The loan is to be paid off by 31st March 2015.

One month after Ram's retirement Laxman and Bharat agreed to admit Ram's son Lav as a partner with 1/4th share in profit / losses. Ram agreed that the balance in his loan account be converted into Lav's capital. Ram also agreed to forgo one month's interest on his loan.

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It was also agreed that Lav will bring in, his share of goodwill through book adjustment, valued at the price on the date of Ram's retirement. No goodwill account is to be raised in the books.

You are required to pass necessary Journal Entries to give effect to the above transactions and prepare Partner's Capital. **[12]**

- (c) Prantik Ltd. who keeps financial records in single entry mode provides the following data for the year ended 31st March, 2014.

Gross Profit Ratio	40% on sales	Net Profit Ratio	10% on sales
Debtors Turnover Ratio	2 Months	Other Expenses (Administrative)	₹ 50 lakhs
Creditors Turnover Ratio	1.5 Months	Depreciation	₹ 10 lakhs
Inventory Turnover Ratio	2 Months	Debentures to Equity share capital	10%
Current Ratio	2.5 Months		

Opening Stock was less than the Closing Stock by ₹ 8 lakhs. The ratio of cash sales to credit sales was 16:9. Depreciation was charged on Fixed Asset at 20%. Other expenses include the payment of interest on debentures. No dividends were declared during the year. Ignore taxation. By application of ratios compute Sales, Gross Profit, Net Profit, Credit sales, Closing Stock, Purchases, Debtors, Creditors, Current Assets, Fixed Assets. **[12]**

4. (Answer any two)

- (a) State the benefits of following Self Balancing System. **[4]**
- (b) The balance on the Sales Ledger Control Account of Adbhut Ltd. on Sept. 30, 2014 amounted to ₹ 9,600 which did not agree with the net total of the list of Sales Ledger Balance on that date.

Errors were found and the appropriation adjustments when made balanced the books. The errors were:

- (i) Debit balance in the sales ledger amounting to ₹460 had been omitted from the list of balances.
- (ii) A Bad Debt amounting to ₹750 had been written-off in the sales ledger, but had not been posted to the Bad Debts Account, or entered in Control Account.
- (iii) An item of goods sold to Amrit for ₹400 had been entered once in the Day Book but posted to his account twice.
- (iv) ₹90 Discount Allowed to Mihir had been correctly recorded and posted in the books. This sum had been subsequently disallowed, debited to Mihir's account, and entered in the discount received column of the Cash Book.

You are required to give the journal entries, where necessary, to rectify these errors. **[4]**

- (c) Prepare a Sales Ledger Adjustment Account in the General Ledger, for the year ended 31st March, 2013 from the following information:

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Particulars	₹	Particulars	₹
Customers' Account debit balance as on 01.04.2012	2,300	Goods returns by debtors	2,000
Customers' Account credit balance as on 01.04.2012	200	Cash discount allowed to debtors	600
Suppliers' Account credit balance as on 01.04.2012	4,000	Cash discount received from creditors	130
Suppliers' Account debit balance as on 01.04.2012	540	Trade discount received from the suppliers	8,000
Credit sales during the year	29,400	Bad debts written- off during the year	400
Credit purchases during the year	27,800	Bad debts recovered during the year	80
Cash sales during the year	22,600	Transfer from creditors ledger to debtors ledger	240
Cash Purchases during the year	5,800	Bills receivable dishonoured	320
Cheques received from credit customers	18,000	Bills payable dishonoured	180
Cash received from credit customers	2,000	Cheques recd from debtors returned dishonoured	750
Cheques issued to the creditors during the year	21,000	Cheques issued to creditors returned dishonoured	290
Goods returned to the creditors	1,400	Customers' Account credit balance as on 31.03.2013	310
Bills payable accepted during the year	1,800	Supplier's Account debt balance as on 31.03.2013	420
Bills received during the year	1,500		

[4]

5. (Answer any two)

- (a) Discuss the treatment of costs incurred during the research phase of an Internally Generated Computer Software. [4]
- (b) 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. [4]
- (c) Write a notes on "Costs Incurred in Securing a Contract". [4]

6. (Answer any two)

- (a) A firm sells goods on sale or return basis, customers, having the choice of returning the goods within a month. During April 2013, the following are the details of the goods sent:

2013 April	Customer	Value ₹	Proforma Invoice No.
2	A	10,000	004
4	B	18,000	007
16	C	25,000	023

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20	D	8,000	032
24	E	21,000	041
28	F	30,000	049

Within the stipulated time A and C returned the goods while B, D and E signified that they have accepted the goods. Show the following accounts in the books of the firm: sale on Approval Account and customers for sale on Approval Account as on 15th May 2013. **[4+4=8]**

- (b)** Khan draws a bill for ₹ 2,40,000 and Sumit accepts the same for mutual accommodation of both of them to the extent of Khan 2/3rd and Sumit 1/3rd. Khan discounts it with bank for ₹ 2,25,600 and remits 1/3rd share to Sumit. Before the due date, Sumit draws another bill for ₹ 3,36,000 on Khan in order to provide funds to meet the first bill on same sharing basis. The second bill is discounted at ₹ 3,26,400. With these proceeds, the first bill is settled and ₹57,600 were remitted to Khan. Before the due date of the second bill, Khan becomes insolvent and Sumit receives a dividend of only 50 paise in a rupee in full settlement.

Pass journal entries in the books of Khan.

[8]

- (c)** Kush and Lav entered into a joint venture for purchase and sale of electronic goods, sharing profits and losses in the ratio of 3:2. They also agreed to receive 5% commission on their individual sales and the following information was extracted from the records:

July 1, 2013: Kush purchased goods worth ₹1,90,000 financed to the extent of 80% out of this funds and balance by loan from his father Ramanad.

August 1, 2013: Kush sent goods costing ₹1,70,000 to Lav and paid ₹1,410 as freight. Lav paid ₹13,410 to Kush.

October 1, 2013: Lav sold all the goods sent to him. Kush paid the loan taken from his father, including interest of ₹350.

All sales, by either party, were made at a uniform profit of 40% above cost. On November 30, 2013, they decided to close the venture by transferring the balance of goods unsold, lying with Kush at a cost of ₹9,000, to a wholesale dealer.

You are required to prepare the Memorandum Joint Venture Account, and Joint Venture with Kush in the books of Lav and Joint Venture with Lav in the books of Kush. They disclosed that goods worth ₹4,000 were taken personally by Kush at an agreed price of ₹5,000. **[8]**

7. (Answer any two)

- (a) (i)** Given below are details of interest on advance of a Commercial Bank as on 31.03.2014:

(₹ in Lakhs)

Particulars	Interest Earned (₹)	Interest Received (₹)
Performing Assets		
Term Loan	720	480
Cash Credit and Overdraft	4,500	3,720
Bills Purchased and Discounted	900	900
Non-Performing Assets		
Term Loan	450	30

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Cash Credit and Overdraft	900	72
Bills Purchased and Discounted	600	120

Find out the income to be recognized for the year ended 31st March 2014. [4]

(ii) Best Bank Ltd. provides you the following information:

	₹ (in lakhs)
Bills for Collection (as on 1.4.2013)	14.00
During the year 2013-14	
Bills received for Collection	129.00
Bills Collected	94.00
Bills dishonoured and returned	11.01

Required: Prepare Bills for Collection (Assets) A/c and Bills for Collection (Liabilities) A/c. [4]

(b) (i) Write a note on — Accounting for grant received under Accelerated Power Development and Reforms Programme (APDRP). [6]

(ii) Discuss the way of System Optimisation involved in Optimised Depreciated Replacement Cost Method. [2]

(c) From the following figures appearing in the books of Fire Insurance division of Swasti General Insurance Company, show the amount of claim as it would appear in the Revenue Account for the year ended 31st March, 2014:

Particulars	Direct Business ₹	Re-Insurance ₹
Claim paid during the year	70,05,000	10,50,000
Claim Payable — 1st April, 2013	11,44,500	1,30,500
31st March, 2014	12,18,000	79,500
Claims received	-	3,54,000
Claims Receivable — 1st April, 2013	-	98,000
31st March, 2014	-	1,69,500
Expenses of Management (includes ₹ 52,500 Surveyor's fee and ₹ 67,500 Legal expenses for settlement of claims)	3,45,000	-

[2+6=8]