

# Paper 5- Financial Accounting

## MTP\_Intermediate\_Syllabus 2012\_Dec2015\_Set 1

The following table lists the learning objectives and the verbs that appear in the syllabus learning aims and examination questions:

	<b>Learning objectives</b>	<b>Verbs used</b>	<b>Definition</b>
<b>LEVEL B</b>	KNOWLEDGE  What you are expected to know	List	Make a list of
		State	Express, fully or clearly, the details/facts
		Define	Give the exact meaning of
	COMPREHENSION  What you are expected to understand	Describe	Communicate the key features of
		Distinguish	Highlight the differences between
		Explain	Make clear or intelligible/ state the meaning or purpose of
		Identify	Recognize, establish or select after consideration
		Illustrate	Use an example to describe or explain something
	APPLICATION  How you are expected to apply your knowledge	Apply	Put to practical use
		Calculate	Ascertain or reckon mathematically
		Demonstrate	Prove with certainty or exhibit by practical means
		Prepare	Make or get ready for use
		Reconcile	Make or prove consistent/ compatible
		Solve	Find an answer to
		Tabulate	Arrange in a table
	ANALYSIS  How you are expected to analyse the detail of what you have learned	Analyse	Examine in detail the structure of
		Categorise	Place into a defined class or division
		Compare and contrast	Show the similarities and/or differences between
Construct		Build up or compile	
Prioritise		Place in order of priority or sequence for action	
Produce		Create or bring into existence	

**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 ×10=20]**

- (i) Mugdha Ltd. purchased a machine of ₹ 40 lakhs including excise duty of ₹ 8 lakhs. The excise duty is Cenvatable under the excise laws. The enterprise intends to avail CENVAT credit and it is reasonably certain to utilize the same within reasonable time. How should the excise duty of ₹8 lakhs be treated?
- (ii) 1,000 kg of apples are consigned to a wholesaler, the cost being ₹3 per kg plus ₹400 of freight, it is known that a loss of 15% is unavoidable. Compute the cost of per kg apple.
- (iii) List the constituents of Central Electricity Regulatory Commission (CERC).
- (iv) Given below are details of interest on advance of a Commercial Bank as on 31.03.2015:  
(₹ 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
Cash Credit and Overdraft	900	72
Bills Purchased and Discounted	600	120

Find out the income to be recognized for the year ended 31<sup>st</sup> March 2015.

- (v) Sales was ₹60,00,000 in the previous year.  
Gross Profit is 25% on Sales.  
The Company expects 20% Sales increment in sales volume during this year.  
Compute the Cost of goods Sold.
- (vi) Kapil Ltd. acquired 2,000 Equity Shares of Kumar Ltd. on cum-right basis at ₹ 75 per Share. Subsequently, Kumar Ltd. made a Rights issue of 2 : 1 at ₹ 60 per Share, which was subscribed for by Kapil Ltd. Calculate cost of total investments at the year end.
- (vii) The following information has been extracted from the books of a lessee for the year 2014-2015:

Particulars	Amount (₹)
Shortworkings lapsed	16,000
Shortworkings recovered	24,000
Actual royalty based on output	60,000

Compute the minimum rent.

- (viii) AB Ltd has signed at 31<sup>st</sup> December, the balance Sheet, a contract where the Total Revenue is estimated at ₹30 Crores and Total Cost is estimated at ₹40 Crores. No work

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began on the contract. Is the Contractor required to give any accounting effect for the year ended 31<sup>st</sup> December?

- (ix) List any two advantages of Self Balancing System.
- (x) The cash book shows a balance of ₹11,000 which was different from the pass book balance. The differences is found to be due to a credit entry in pass book amounting to ₹2,000 for direct payment by a customer and a debit of ₹250 for bank charges on collection of outstation cheques and other services. What would be the balance as per bank Pass Book?

### **2. (Answer any two)**

- (a) Write a note on accounting Life Cycle. **[4]**
- (b) Mr. Mohan sold goods on credit to various customers. Details related to one of the customer, Mr. Kamal, is as under:
- (i) Goods sold on credit ₹ 8,75,000
  - (ii) Payment received from customer in cash ₹ 1,75,000 and by cheques ₹ 4,02,500. Out of cheques received, a cheque of ₹ 66,500 was dishonoured by bank.
  - (iii) Customer accepted two Bills of ₹33,250 and ₹ 92,750 for 2 months and 3 months respectively.
  - (iv) Credit note raised against the customer ₹ 5,950 for excess payment charged against one of the consignment.
- Mr.Kamal, the customer is in need to ascertain the actual balance due to Mr.Mohan. Prepare a Reconciliation Statement. **[4]**

- (c) Mangaldeep Ltd. closed their books on 31<sup>st</sup> December, 2014. On that date they detected that —
- (i) Material from store ₹9,000 and wages ₹3,500 have been used in making loose tools for use in own factory. But no adjustments were made in the books.
  - (ii) ₹45,000 paid in instalments to an injured worker, pending the settlement of workmen's compensation claim against the insurance company were debited to Wages Account.
  - (iii) Goods for ₹95,000 purchased from Kumar on 26<sup>th</sup> December, 2014 were entered in the Purchase Day Book but the delivery of the goods was not received before 5<sup>th</sup> January,2015.
  - (iv) During the year certain investments were sold for ₹85,000 at a profit of ₹5,000 but passed through the sales account.
- Pass the Journal Entries to rectify the above errors. **[4]**

### **3. (Answer any Two)**

- (a) (i) From the following details find out the amount to be debited to Profit and Loss A/c as fresh provision for doubtful debts during 2014-15.  
Debtors was ₹ 30,000 as on 31.03.2015; Bad debt during the year ₹ 1,500; Provision for bad debts as on 01.04.2014 ₹ 2,000; Provision for doubtful debts to be kept at 5% of total debtors. **[3]**
- (ii) P, Q and R were in partnership sharing profits and losses in the ratio of 3 : 2 : 1. The Balance Sheet as on 31.3.2014 is as under :

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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 1.9.2014 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 1.10.2011 repairs to machinery for ₹ 6,000 had been wrongly debited to the Machinery Account, and on 1.4.2012 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:

2010-11 ₹20,000; 2011-12 ₹24,000; 2012-13 ₹32,000; 2013-14 ₹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]

- (b) (i)** Indira Electronics sold a colour TV set to X on hire purchase system on 1.1.2015 for ₹ 36,800. X paid ₹ 8,000 on the same date to receive the delivery of the TV set and agreed to pay the balance in 12 equal monthly installments, each instalment becoming due on the last date of each month. X paid six instalments in time but failed to pay other installments. In September 2015 (before the monthly instalment has become due) the seller repossessed the TV set. The repossessed set was valued at ₹ 14,000.

Show the necessary ledger accounts (on the basis of Stock and Debtors system) in the books of Capital Electronics. [8]

- (ii)** YYY (HG) Ltd. carried on a retail business opened a branch X on 1<sup>st</sup> April, 2015 where all sales were on credit basis. All goods required by the branch were supplied from the head office and were invoiced to the branch at 10% above cost. The following were the transactions:

	April ₹	May ₹	June ₹
Goods sent to Branch (Cost to H.O)	40,000	50,000	60,000
Sales as shown by the branch monthly report	38,000	42,000	55,000
Cash received from Debtors and remitted to H.O.	20,000	51,000	35,000
Returns to H.O. (Cost to Branch)	1,200	600	2,400

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The stock of goods held by the branch on June 30, amounted to ₹ 53,400 at invoice price to branch. Record these transactions in the Head Office books, showing balances as on 30<sup>th</sup> June, 2015 and the branch gross profit for the three months ended on that date. **[4]**

(c) The Income and Expenditure Account of the Mumbai Club for the year 2014 is:

	₹		₹
To Salaries	1,20,000	By Subscription	1,70,000
" Printing & Stationery	6,000	" Entrance Fees	4,000
" Postage	500	" Contribution of Dinner	36,000
" Telephone	1,500		
" General Expenses	12,000		
" Interest and Bank Charges	5,500		
" Audit Fees	2,500		
" Annual Dinner Expenses	25,000		
" Depreciation	7,000		
" Surplus	30,000		
	2,10,000		2,10,000

The account has been prepared after the following adjustments:

	₹		₹
Subscription outstanding 31.12.2013	16,000	The club owned a building since 2013	1,90,000
Subscription outstanding 31.12.2014	18,000	The club had sports equipments on	
Subscription received in advance		31.12.2013 value at	52,000
On 31.12.2013	13,000	At the end of the year, after depreciation	
Subscription received in advance		of ₹ 7,000, equipment amounted to 63,000	
on 31.12.2014	8,400	In 2013 the club had raised a Bank	
Salaries outstanding 31.12.2013	6,000	Loan which is still unpaid	30,000
Salaries outstanding 31.12.2014	8,000	Cash in hand on 31.12.2014	28,500
Audit Fees from 2013 paid during 2014	2,000	Audit Fees for 2014 not paid	2,500

Prepare the Receipts and Payments Account of the Club for 2014 and the Balance Sheet as on 31<sup>st</sup> December 2014. All workings should form part of your answer. **[12]**

#### 4. (Answer any two)

(a) Discuss Contra Transaction. **[4]**

(b) From the following information, prepare Total Debtors Account for the year ended on 31<sup>st</sup> March, 2015.

	₹		₹
Trade Debtors as on 1.4.2014	1,00,000	Cash received from Debtors	1,00,000
Credit Sales	6,10,000	Cheque received from Debtors	2,00,000
Return Inwards	10,000	Bills Receivable drawn	3,00,000
Discount Allowed	5,000	Bad Debts	5,000

**[4]**

(c) Debtors List of ₹2,00,000 includes ₹2,000 owed by A and ₹1,000 by B. Similarly, Creditors List of ₹4,00,000 covers ₹6,000 owed to A and ₹600 to B. Give necessary Journal Entries for the transfer under Sectional Balancing System. **[4]**

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### 5. (Answer any two)

- (a) Write note on Project Accounting. [4]
- (b) An amount of ₹9,90,000 was incurred on a contract work upto 31.03.2015. Certificates have been received to date to the value of ₹12,00,000 against which ₹10,80,000 has been received in cash. The cost of work done but not certified amounted to ₹22,500. It is estimated that by spending an additional amount of ₹60,000 (including provision for contingencies) the work can be completed in all respects in another two months. The agreed contract price of work is ₹12,50,000. Compute a conservative estimate of the profit to be taken to the Profit and Loss Account as per AS – 7. [4]
- (c) Mita Ltd sells agricultural products to its dealers. One of the conditions of sale is that interest is payable at 2% p.m. for delayed payment. Percentage of interest recovered is only 10% on such overdue outstanding due to various reasons. During the financial year, Mita Ltd wants to recognize the entire interest receivable. Do you agree? [4]

### 6. (Answer any two)

(a) (i) Sarda Gadgets Ltd. sends electric ovens costing ₹ 1,200 each to their customers on Sale or Return basis. These are treated like actual sales and recorded through the Sales Day Book. Two months before the end of financial year it sent 150 ovens at an Invoice Price of ₹ 1,500 each, of which 20 ovens are accepted by customers at ₹ 1,400 each. Regarding the rest of the goods sent no further report is available. You are required to give the necessary Journal Entries at the end of the accounting year. [4]

(ii) There is a fire in the godown of Pataka Ltd. on 1.7.2014, stock worth ₹30,000 was saved. The goods were insured and fully covered.

- An average gross profit of 20% on sale is maintained by the company.
- The stock is valued at 10% above cost.

The purchases and sales for first 6 months of the year were ₹ 2,10,000 and ₹4,50,000, respectively; stock on January 1, 2014 was ₹1,48,500. The wages for that period amounted to ₹90,000. Find out the cost of the stock burnt.

- Goods sold on approval but lost by fire ₹6,000. [4]

(b) (i) Mr. M owed ₹ 3,000 on 1st Jan, 2014 to Mr. S. The following are the transactions that took place between them during 2014. It is agreed between the parties that interest @ 6% p.a. is to be calculated on all transactions.

2014			₹
January	16	Mr. S sold goods to Mr. M	2,000
January	29	Mr. S purchase goods from Mr. M	1,500
February	10	Mr. S pays cash	1,500
March	7	Mr. M accepts bill drawn by Mr. S for one month	2,000

They desire to settle their accounts by one single payment on 15th March 2014. Ascertain the amount to be paid to the earnest rupee. Ignore days of grace. [6]

(ii) Mr. D of Delhi sent out 1,000 boxes to Mr. K of Kolkata costing ₹20 each. Consignor's expenses ₹2,000. 4/5<sup>th</sup> of the boxes were sold at ₹25 each. Compute the profit on consignment. [2]

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(c) M and N decided to work a joint venture for the sale of electric motors.

On 1<sup>st</sup> May 2014, M purchased 200 electric motors at ₹ 175 each and dispatched 150 motors to N incurring ₹ 1,000 as freight and insurance charges. 10 electric motors were damaged in transit. On 1<sup>st</sup> February 2015, ₹ 500 were received by M from the insurance company, in full settlement of his claim. On 15<sup>th</sup> March 2015, M sold 50 electric motors at ₹ 225 each. He received ₹ 15,000 from N on 1<sup>st</sup> April 2015.

On 15<sup>th</sup> May 2014, N took delivery of the electric motors and incurred the following expenses:

Clearing Charges ₹ 170; Repair charges to electric motors damaged in-transit ₹ 300; Godown Rent for 3 months ₹ 600.

He sold the electric motors as:

1.2.2015	10 damaged motors ₹ 170 each
	40 motors at ₹ 200 each
15.3.2015	20 motors at ₹ 315 each
1.4.2015	80 motors at ₹ 250 each

It is agreed that they are entitled to a commission of 10% on the respective sales effective by them; that the profits and losses shall be shared between M and N in the ratio of 2:1. N remits M the balance of amount due on 30<sup>th</sup> April 2015. You are required to show the Memorandum Joint Venture Account only. You are required to show the Memorandum Joint Venture Account only. **[8]**

### 7. (Answer any two)

(a) The Life Fund of a Life Assurance Ltd. was ₹90,00,000 as on 31<sup>st</sup> March, 2015. The interim bonus paid during the intervaluation period was ₹ 4,00,000. The periodical actuarial valuation determined the net liability at ₹ 74,00,000. Surplus brought forward from the previous valuation was ₹ 5,00,000. The directors of the company proposed to carry forward ₹ 10,00,000.

Required: Show: the Valuation Balance Sheet; the Net Profit for the valuation period; and the distribution of the surplus. **[8]**

(b) From the following information Calculate Return on Equity as per Regulation 21 of the Central Electricity Regulatory Commission (Terms and Conditions of Tariff) Regulations, 2004:

- A. Date of Commercial Operation of COD = 1<sup>st</sup> April 2010
- B. Approved Opening Capital Cost as on 1<sup>st</sup> April 2010 = ₹ 1,50,000
- C. Details of allowed Additional Capital Expenditure. Repayment of Loan and Weighted Average Rate of Interest on Loan is as Follows

	1 <sup>st</sup> Year	2 <sup>nd</sup> Year	3 <sup>rd</sup> Year	4 <sup>th</sup> Year
Additional Capital Expenditure (Allowed)	10,000	3,000	2,000	1,000

**[8]**

(c) (i) Discuss - State Electricity Commission (SEC). **[3]**

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

(iii) State the meaning of Reinsurance. **[3]**