

Paper 5- Financial Accounting

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Full Marks : 100

Time allowed: 3 hours

Section - A

1. Answer the following questions:

(a) Choose the most appropriate one from the stated options and write it down (only indicate (A) or (B) or (C) or (D) as you think correct.): [1×5=5]

(i) Excess of hire purchase price over cash price is known as

- (a) Installment
- (b) Cash down payment
- (c) Interest
- (d) Capital value of asset

(ii) Which of the following is/are revenue expenditure?

- (a) Consumable Stores
- (b) Taxes and legal expenses
- (c) Rent of factory building
- (d) All of Above

(iii) AS-9 is related to

- (a) Revenue Recognition
- (b) Cash Flow Statement
- (c) Accounting for Fixed Assets
- (d) Disclosure of Accounting policies

(iv) Ground rent or Surface rent means

- (a) Maximum rent
- (b) Excess workings
- (c) Short workings
- (d) None of the above

(v) The following account has a credit balance

- (a) Plant and Equipment A/c
- (b) Loans A/c
- (c) Purchase A/c
- (d) None of the above

(b) Match the following in Column - I with the appropriate in Column - II: [1×5=5]

Column I		Column II	
(i)	Non-Performing Assets	(A)	Branch Accounts
(ii)	AS-15 (Revised)	(B)	Consignment Accounting
(iii)	AS-28	(C)	Banking Company
(iv)	Stock and Debtors Method	(D)	Employee Benefits
(v)	Account Sales	(E)	Impairment of Assets
		(F)	Borrowing Cost

(c) State whether the following statements are true or false: [5×1=5]

- (i) In case of Hire Purchase ownership passes at the time of sale.
- (ii) Minimum rent is also called dead rent or fixed rent.

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- (iii) Revenue expenditure is the outflow of funds to acquire an asset that will benefit the business for not more than one accounting period.
- (iv) Dishonour of a Bill means that the acceptor refuses to honour his commitment on due date and payment of the bill on presentation does not take place.
- (v) Independent Branches maintain independent accounting records.

(d) Answer the following questions (Give workings):

[2×5=10]

- (i) 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.
- (ii) BT LTD. which depreciates its machinery at 10% p.a. on diminishing balance method, had on 1st April, 2015, ₹ 29,160, to the debit of Machinery Account. On 31st March, 2016, the company decided to change the method of depreciation to straight line method with effect from 1st April, 2012, the rate of depreciation remaining the same.
Pass the necessary Journal entry on account of change in method of Depreciation.
- (iii) Healthy Life Insurance Ltd. declared a reversionary bonus of ₹ 12 per ₹ 1,000 and gave the policyholders an option to get the bonus in cash for ₹ 5 per ₹ 1,000. Total business of the company is ₹ 15 crores, 40% of the policyholders decided to get bonus in cash.
Pass the necessary journal entries in the Book of Healthy Life Insurance Ltd.
- (iv) P and R are currently partners in a firm sharing Profit/Loss in the ratio of 4:3. A new partner D is admitted and after his admission new Profit/Loss sharing ratio between P, R and D becomes 5:3:2.
What will be the sacrifice ratio of P and R after admission of D?
- (v) MS Upasana purchased 10% Debentures in MM LTD for ₹ 10,40,000 on 1st July, 2015. The face value of these Debentures were ₹ 9,60,000. Interest on Debentures falls due on 30th September and 31st March.
Compute the Cost of Acquisition of the Debentures.

Section - B

Answer any five from the following. Each question carries 15 marks (5x15=75)

2. (a) Vishan for mutual accommodation of Tithan and himself drew upon the latter a three months bill for ₹ 24,000 on 1st July, 2015, which was duly accepted. Vishan discounted the bill at 6% p.a. on 4th July, 2015 and remitted $\frac{1}{2}$ of the proceeds to Tithan.

On 1st August, 2015, Tithan drew and Vishan accepted a bill at 3 months for ₹ 9,600. On 4th August, 2015, Tithan discounted the bill at 6% p.a. and remitted half the proceeds to Vishan. At maturity Vishan met his acceptance, but Tithan failed to meet his and Vishan had to take up. Vishan drew and Tithan accepted a new bill at two months on 4th November, 2015, for the amount due to Vishan plus ₹ 200 as interest. On 1st January, 2016, Tithan became insolvent and a first and final dividend of 40 paises in the rupee was received from his estate on 31st March, 2016.

Note: Days of grace for discounting purposes may be ignored.

Required:

Pass the necessary Journal Entries in the Books of Vishan.

[3+5=8]

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- (b) A Delhi head office passes one entry at the end of each month to adjust the position arising out of inter-branch transactions during the month. From the following inter-branch transactions in March 2017, make the entries in the books of Delhi Head office.

(a) Kolkata Branch :

- (i) Received goods from Patna branch ₹ 18,000 and Ahmedabad branch ₹ 12,000.
(ii) Sent goods to Ahmedabad branch ₹ 30,000 and Patna branch ₹ 24,000.
(iii) Sent acceptances to Patna branch ₹ 12,000 and Ahmedabad branch ₹ 6,000.

(b) Kanpur branch [apart from (a) above] :

- (i) Sent goods to Ahmedabad branch ₹ 18,000.
(ii) Recived B/R from Ahmedabad branch ₹ 18,000.
(iii) Recived cash from Ahmedabad branch ₹ 10,000.

[7]

3. The Income & Expenditure Account of Jayashree Sangha Club for the year ended 31.12.2015 as given below:

Expenditure	₹	Income	₹
To Salaries	20,500	By Subscription	52,000
To Newspaper	1,500	By Sale of Newspaper	2,500
To Audit Fees	2,500	By Admission Fees	12,000
To General Expenses	22,000	By Donation	15,000
To Printing & Stationery	7,500	By Miscellaneous Income	500
To Travelling Expenses	2,000		
To Rent	3,500		
To Depreciation of Furniture	2,500		
To Surplus	20,000		
	82,000		82,000

The following is the Balance Sheet of the Club as on 31.12.2014

Liabilities	Amount (₹)	Assets	Amount (₹)
Outstanding salary	2,000	Furniture	15,000
Subscription received in advance	2,500	Sports equipment	20,000
Accumulated fund	45,500	Accrued Subscription	5,000
		Cash at Bank	10,000
	50,000		50,000

Prepare Receipts & Payments Account for the year ended 31.12.2015 taking into account the following adjustments:

- (i) Subscription received in advance ₹ 1,500

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- (ii) Salary due for ₹ 1,500 but not paid for the year
 (iii) 60% of the admission fee to be capitalized
 (iv) Subscription due for 2015 but not received ₹ 3,000.

[15]

4. P, Q, R and T have been carrying on business in partnership sharing profits and losses in the ratio of 4:1:2:3. The following is their Balance Sheet as on 31st March, 2016:

LIABILITIES	₹	₹	ASSETS	₹	₹
Capital Accounts:			Premises		2,80,000
P	7,00,000		Furnitures		30,000
T	3,00,000	10,00,000	Stock-in-Trade		2,00,000
Trade Creditors		3,00,000	Trade Debtors	3,50,000	
			Less: Provision for Bad Debts	50,000	3,00,000
			Cash at Bank		1,40,000
			Capital Accounts:		
			Q	2,00,000	
			R	1,50,000	3,50,000
		13,00,000			13,00,000

It has been agreed to dissolve the partnership on 1st April, 2016, on basis of following points agreed upon:

- (i) P is to take over Trade Debtors at 80% of Book Value (₹ 3,50,000);
 (ii) T is to take over the stock in Trade at 95% of the value; and
 (iii) R is to discharge Trade Creditors.
 (iv) The realisation is : Premises ₹ 2,75,000 and Furnitures ₹ 25,000.
 (v) The expenses of realisation come to ₹ 30,000.
 (vi) Q is found insolvent and ₹ 21,900 is realised from his estate.

Note: The loss arising out of capital deficiency may be distributed following decision in Garner vs. Murray.

You are required to Prepare:

- (a) Realisation Account
 (b) Bank/Cash Account
 (c) Capital Accounts of the Partners.

[5+4+5+1=15]

5. (a) The following details are extracted from the records of M/S Bandhan & Co, a trader for the year ended March 31, 2016.

- (i) Total sales amounted to ₹ 1,80,000 including the sale of old Xerox Machine for ₹ 4,800 (Book value ₹ 8,000). The total Cash sales were 20% of the total Credit sales.
 (ii) Collections from debtors amounted to 70% of the aggregate of the opening debtors and Credit sales for the period. Debtors were allowed a cash discount of ₹ 20,000.
 (iii) Bills Receivable drawn during the three months totalled ₹ 30,000 of which bills amounting to ₹ 10,000 were endorsed in favour of suppliers. Out of the endorsed Bills, one bill for ₹ 6,000 was dishonoured for non-payment as the party became insolvent, his estate realised nothing.
 (iv) Cheques received from customers ₹ 8,000 were dishonoured, a sum of ₹ 2,000 was irrecoverable. Bad Debt written off in the earlier years was realised ₹ 11,000.
 (v) Sundry Debtors as on 01.04.2015 stood of ₹ 50,000.

You are required to draw up the Debtors Ledger Adjustment Account in the General Ledger.

[9]

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(b) X Ltd. has taken out a fire policy of ₹ 3,20,000 covering its stock. A fire occurred on 31st March, 2017. The following particulars are available :

	₹
Stock as on 31.12.2016	1,20,000
Purchases to the date of fire	5,20,000
Sales to the date of fire	3,60,000
Carriage Inwards	3,200
Commission on purchase to be paid	@2%
Gross Profit Ratio @ 50% on cost.	

You are asked to ascertain (i) total loss of stock; (ii) amount of claim to be made against the Insurance Company assuming that the policy was subject to average clause. Stock salvage amounted to ₹ 82,720. [6]

6. A Ltd. obtained from P.P Ltd. a lease of some coal-bearing land, the terms being a royalty of ₹ 15 per ton of coal raised subject to a minimum rent of ₹ 75,000 p.a. with a right of recoupment of short-working over the first four years of the lease. From the following details, show (i) Short-working Account and (ii) Royalty Account in the books of A Ltd.

Year	Sales (Tons) ₹	Closing Stock (Tons) ₹
2012	2,000	300
2013	3,500	400
2014	4,800	600
2015	5,600	500
2016	8,000	800

[9]

(b) The Bank statement of Mr. J. White dated 31.12.2015 showed a balance with his Bank of ₹ 924. On verification of his Cash Book the following were noted:

- (i) During December, the Bank had paid ₹200 for a yearly contribution of Mr. White, made to a local charity, as per his standing order. This amount appeared in the Bank statement but not in the Cash Book.
- (i) The Bank had credited his account with ₹28 interest and had collected on his behalf ₹230 as dividends. No corresponding entries were made in the Cash Book.
- (ii) A cheque of ₹65 deposited into the Bank on 28.12.2016 was not cleared by the Bank till after 31.12.2016.
- (iii) A cheque of ₹150 deposited into and cleared by the Bank before 31.12.2016 was not entered in the Cash Book, through an oversight.
- (iv) Cheques drawn by and posted to parties by Mr. White on 31.12.2016 for ₹73, ₹119 and ₹46 were presented for payment to the Bank only on 3.1.2017.

Prepare Bank Reconciliation Statement as on 31st December, 2015.

[6]

7. (a) Calculate the contract revenue from the following details

Particulars	Year I	Year II	Year III
Initial contract revenue	6,000	6,000	6,000
Revenue increase due to escalation in II nd year	—	1,200	—
Claim			600
Incentive Payment			900
Penalties		300	—

[6]

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- (b) The following are balances and other information extracted from the books of Sneha In Bank Ltd. as on 31st March, 2016.

	₹ in lakhs		₹ in lakhs
Interest and Discount	4,420	Interest expended	1,360
Other Income	125	Operating Expenses	1,331
Income on Investments	10		

Additional Information:

	₹ in lakhs
(i) Rebate on bills discounted to be provided for	15
(ii) Classification of Advances:	
Standard Assets	2,500
Sub-Standard Assets (Covered by security)	560
Doubtful Assets not covered by security	255
Doubtful Assets covered by security	
For 1 year	25
For 2 years	50
For 3 years	100
For 4 years	75
Loss Assets	100
(iii) Make tax provisions @ 35% of the profit.	
(iv) Profit and Loss Account (Cr.) brought forward from the previous year	40

Required:

- (A) Calculate the amount of Provisions and contingencies
 (B) Prepare Profit & Loss Account for the year ended 31st March, 2016. **[4+6=10]**

8. (a) The following details are extracted from the Books of Mega Power Generation Ltd.

- Date of Commercial Operation/Work Completed date : 28th January', 1998
- Beginning of Current Year : 1st April, 2013
- Useful Life : 35 years

Particulars	(Amount in ₹ crores)
Capital Cost at beginning of the year 2013-14	33,000
Additional Capitalisation during the year:	
2013-14	00.00
2014-15	51.70
2015-16	43.76
Value of Freehold Land	17.84
Depreciation recovered upto 2011-12	72.25
Depreciation recovered in 2012-13	8.05

Note: Capital Cost and Accumulated Depreciation at the beginning of the year as per Tariff order, Financial Year 2013-14.

You are required to calculate:

- (i) Average Capital Cost
 (ii) Annual Depreciation for the year 2013-14, 2014-15 and 2015-16 as per Tariff Regulations-2009. **[2+5=7]**

- (b) Elite Marine Insurance Co. Ltd. commenced its business on 1st April, 2014. The Company provides you the following information for the year ended March 31, 2016.

Particulars	Amount in ₹ lakh
Outstanding claims on 01.04.2015	98
Claims Paid	350
Reserve for Unexpired Risk on 01.04.2015	780

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Legal Expenses regarding claims	12
Agent's Commission	120
Expenses of Management	180
Premiums received	1,690
Re-insurance premium paid	75
Interest and Rent received	24
Surveyor Fees	30

The following additional points are also to be taken into account.

- (i) Claims outstanding on 31.03.2016 were ₹ 35 lakh
- (ii) Premium outstanding on 31.03.2016 were ₹ 105 lakh
- (iii) Expenses of management due on 31.03.2016 were ₹ 35 lakh
- (iv) Reserve for unexpired Risk to be maintained at 100% of net Premiums.

Required: Prepare the Revenue Account as per IRDA Regulations for the year ended March 31, 2016. **[5 + 1/2 + 1 + 1/2 + 1/2 + 1/2 = 8]**

9. Write short notes on any three out of the following:

[5×3=15]

- (a) Difference between Capital and Revenue Expenditure;
- (b) Difference between Cash Basis and Accrual Basis of Accounting;
- (c) Project Accounting;
- (d) Minimum Rent/Dead Rent.