Paper-5: FINANCIAL ACCOUNTING

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

Whenever necessary, suitable assumptions should be made and indicate in answer by the candidates.

Working Notes should be form part of your answer

Section A is compulsory and answer any 5 questions from Section B

Section A

1. Answer the following questions (give workings): **[2×10]**

(i) In preparing the bank reconciliation statement for the month of June 2013, AB Company has the following data:

	₹
Balance as per bank statement	15,375
Cheques in transit	1,250
Cheques issued but not presented	1,725
Bank service charges	100

Compute the Bank Balance as per Cash Book.

(ii) Calculate the amount of Salary to be shown in the Income and Expenditure Account for the year ended 31st March 2013 from the following information:

(a) Salary paid as per Receipt and Payment Account ₹63,000
(b) Salary unpaid on 31.3.2012 ₹6,000
(c) Salary Prepaid on 31.3.2012 ₹5,000
(d) Salary unpaid on 31.3.2013 ₹7,000
(e) Salary prepaid on 31.3.2013 ₹8,000

(iii) From the following particulars, show the entries in the books of Consignor:
Goods sent on Consignment 150 books of ₹ 200 each.

Expenses incurred by consignor		Expenses incurred by consignee	
Freight	₹4,000	Clearing	₹4,000
Insurances	₹2,000	Storage	₹1,000

Consignee sold 123 books and he informed that a deficiency of 3 units is disclosed by his actual physical stock taking.

(iv) X,Y and Z were in partnership sharing profits and losses in the ratio of 3: 2:1. Z retired . His share was taken by X and Y in 2:1 . Calculate the gaining ratio and new profit –sharing ratio.

(v) A bought goods from S for ₹1,000 on credit. For this purpose, S drew a bill on A which was accepted by A on 1.10.2012 for the amount payable after three months. On 1.11.2012, A arranged to retire the bill at a rebate of 12% p.a. Show the entries in the books of S.

(vi) 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?

(vii) An industry borrowed ₹40,00,000 for purchase of machinery on 1.6.2012. Interest on loan is 9% per annum. The machinery was put to use from 1.1.2013. What is the amount to be charged for the year ended 31.3.2013 to record the borrowing cost of loan as per AS 16.

(viii) From the following particulars prepare a Consignment Account:

Particulars	Amount (₹)
Opening stock	-
Add: Goods sent on consignment	1,00,000
	1,00,000
Add: Consignor's Expenses	10,000
	1,10,000
Less: Normal Loss	-
	1,10,000
Less: Abnormal Loss	20,000
	90,000
Add: Non –recurring expenses	10,000
	1,00,00
Less: Unsold Stock	30,000
Cost of Goods sold	70,000
Add: profit at 25% of cost	17,500
Sales	87,500

(ix) Mr. Amit sales during the 2013 were ₹ 5,000 more than purchases during the year. His closing stock was valued at ₹ 5,000 . Rate of gross profit on sales was @ 40%. Draw up his Trading Account for the year ended 31st December,2013.

(x) Classify the following between Capital and Revenue giving reasons

(a) Old machinery of book value of ₹ 10,000 worn out dismantled at a cost ₹ 2,500 and scraps realized for ₹ 500.

(b) A firm of builders spent ₹ 4, 00,000 for purchasing a plot of land and erected its own office over 1/4th of the site. The remaining area was developed for sale to public.

Section- B

2 (a) Mayank furnishes you with the following information and asks you to :

(i) Recorded the transactions in the cash book with bank column for November,2013, and

(ii) Prepare reconciliation statements with State Bank of India as on 31st October, and 30th November 2013.

- On October 31,2013 there was bank overdraft of ₹14,000 as per Cash Book and cash in hand of ₹7,500.

Bank Statement as on that date showed cheques deposited but not yet realized of ₹40,000 while cheques issued but not presented for payment amounted to ₹60,000.

- During the month, customers paid ₹4,50,000 which were deposited into bank. Of these, cheques of ₹50,000 were deposited on 30th November 2013, and realized subsequently. The bank realized all the other cheques and charged ₹300 as collection expenses. These charges are to be entered in the Cash Book and not kept as reconciliation item.
- Cheques issued during the month totaled to ₹4,20,000. Bank statement showed that cheques presented for payment totaled to ₹4,50,000 only of which one cheque of ₹7,000 issued in October,2013 was returned on 5.11.2013 for want of Mayank's signature on the cheque. Mayank paid cash to the payee of the cheque and cancelled the cheque. The bank charged ₹25 for cheque return.
- Cheque presented for payment during the month included cash withdrawal from bank ₹15,000. 40% of this cash is handed over on various dates to the petty cashier while 50% is taken by Mayank for his personal use.
- Bank Charged ₹200 for cheque book issued.

(b) The total of debit side of Trial balance of a larger boot and shoe repairing firm as on 31.12.2013 is ₹1,66,590 and that of the credit side is ₹42,470. After several checking and re-checking the mistakes are discovered:

Items of Account	Correct Figure (as it would be)	Figures as it appear in the Trial Balance
Opening Stock	₹15,900	₹15,600
Maintenance	₹61,780	₹61,780
Rent & Taxes	₹4,640	₹4,400
Sundry Creditors	₹6,270	₹5,900
Sundry Debtors	₹7,060	₹7,310

Ascertain the correct total of the Trial Balance.

(c) What is Project Accounting? **[8+4+4]**

3 (a) Mandira Ltd. provides depreciation on its plant @ 10% on Reducing Balance Method. On 31st December, 2013, it decides to adopt the Straight Line Method of charging depreciation instead of Reducing Balance Method with retrospective effect from 1st January, 2010 although the rate of depreciation is same.
On 01.01.2013, the plant account stood in the books at ₹1,45,800. On 01.04.2013, Mandira Ltd. sold a plant for ₹28,000 whose written-down value was ₹37,800 on 01.01.2010. On 01.09.2013, a new plant was also purchased for ₹90,000.
Show the Plant Account in the books of Mandira Ltd. for the year 2013 only.

(b) Compass, Cone and Circle are in partnership sharing profits and losses in the ratio of 3:2:1. The Balance Sheet of the firm as on 31st Dec,2012 was:

Liabilities	Amount ₹	Amount ₹	Assets	Amount ₹	Amount ₹
Capital Accounts: Compass	 40,000		 Machinery (at cost)	 50,000	

Cone Circle	60,000 20,000	1,20,000	Less: provision for depreciation	8,000	42,000
Reserve		30,000	Furniture		1,000
Sundry Creditors		60,000	Sundry Debtors Less: Provision for Doubtful Debts	80,000 3,000	77,000
			Stocks		50,000
			Cash at Bank		40,000
		2,10,000			2,10,000

On 31st March, Cone retired and Compass and Circle continued in partnership, sharing profits and losses in the ratio of 3:2. It was agreed that adjustments were to be made in the Balance Sheet as on 31st March 2013, in respect of the following:

i. The Machinery was to be revalued at ₹ 45,000;
ii. The stock was to be reduced by 2%;
iii. The Furniture was to be reduced to ₹ 600;
iv. The provision for doubtful debts would be ₹ 4,000;
v. A provision of ₹300 was to be made for outstanding expenses.

The partnership agreement provided that, on the retirement of a partner, goodwill was to be valued at ₹ 24,000 and Cone's share of the same was to be adjusted into the account of Compass and Circle. The profit up to the date of retirement was estimated at ₹ 18,000.
Cone was to be paid off in full, Compass and Circle were to bring such an amount in cash so as to make their capital in proportion to the new profit – sharing ratio, subject to the condition that a cash balance of ₹ 20,000 was to be maintained as working capital.
Pass the necessary Journal entries to give effect to the above arrangements and prepare the Partners' Capital Accounts as on 31st March 2013. **[8+8]**

4 (a) Mr. Chintamani maintains his accounts on Mercantile basis. The following Trial Balance has been prepared from his books as at 31st March, 2013 after making necessary adjustments for outstanding and accrued items as well as depreciation:

Trial Balance
as at 31st March, 2013

Particulars	Dr. (₹)	Cr. (₹)
Plant and Machinery	2,12,500	
Sundry Creditors		2,64,000
Sales		6,50,000
Purchases	4,20,000	
Salaries	40,000	
Prepaid Insurance	370	
Advance Rent	2,000	
Outstanding Salary		6,000
Advance Salary	2,500	
Electricity Charges	2,650	
Furniture and Fixtures	72,000	

Opening Stock	50,000	
Outstanding Electricity Charges		450
Insurance	1,200	
Rent	10,000	
Miscellaneous Expenses	14,000	
Cash in hand	3,000	
Investments	80,000	
Drawings	24,000	
Dividend from Investments		8,000
Accrued Dividend from Investments	1,500	
Depreciation on Plant and Machinery	37,500	
Depreciation on Furniture	8,000	
Capital Account		2,11,970
Telephone Charges	6,000	
Sundry Debtors	1,70,500	
Stationery and Printing	1,200	
Cash at Bank	65,000	
Interest on Loan	8,000	
Interest Due but not paid on loan		1,500
Loan Account		90,000
	12,31,920	12,31,920

Additional Information:

(i) Salaries include ₹ 10,000 towards renovation of Proprietor's residence.

(ii) Closing Stock amounted to ₹ 75,000.

Mr. Chintamani, however, request you to prepare a Trading and Profit & Loss Account for the year ended 31st March, 2013 and a Balance Sheet as on that date following cash basis of accounting.

(b) Distinguish between Bills of exchange and Promissory Note.

(c) X & Co. has produced a Trial Balance as on March 31, 2013 which does not balance, the difference of ₹1,760 being transferred to the Suspense account. An examination of the Company's books disclose the following errors:

(i) Goods received from XYZ Limited on March 31, 2013 costing ₹9,690 have been included in stock but the invoice has not been received.

(ii) Sales Account in the General Ledger has been credited with a credit note for ₹950 being trade-in allowance given on a company van. This amount had already been taken into account when dealing with the replacement in the Motor Van Account.

(iii) An invoice from Joseph & Co. amounting ₹4,450 for goods purchased has been omitted from the Purchase Day Book and posted direct to Purchase Account in the General Ledger and Joseph & Co. Account in the Suppliers' Ledger but had not been included in the Suppliers' Ledger Control Account in the Trial Balance.

(iv) Discount allowed for the month of March amounting to ₹1,740 has not been posted to Discount Allowed Account in the General Ledger.

(v) A cheque for ₹1,920 received from Jolly Limited, a debtor, has been posted directly to the Sales Account in the General Ledger. **[6+4+6]**

5(a) It was provided under the partnership agreement between Naresh, Mahesh and Paresh that in the event of death of a partner, the survivors would have to purchase his share in the firm on the following terms:

(i) Deceased's share of Goodwill to be taken at three years' purchase of his share of profits on the average of previous 4 years; and

(ii) Total amount due to his representative to be paid by survivors in 4'equal half yearly installments commencing 6 months after the date of death with 5% interest on outstanding dues.

They shared profits and losses in the ratio of 9: 4: 3 and accounts were drawn up to each year's 30th June.

Naresh died on 31st December, 2013 and their capital accounts on that date were Naresh ₹10,800, Mahesh ₹6,400 and Paresh ₹3,600. Naresh's current account on 31st December, 2013 after crediting his share of profit to that date, however, showed a debit balance of ₹ 960.

Firm's Profits were for the year ended 30th June, 2010 ₹35,200; 30th June, 2011 ₹28,160; 30th June, 2012 ₹ 24,080; 30th June, 2013 ₹8,704.

Show the relevant ledger accounts in the books of the firm recording half-yearly payments to Naresh's estate by the surviving partners.

(b) ABCD Ltd. bought and sold 6% Stock as follows, interest being payable on March 31st and September 30th each year:

2013	March	1	Bought ₹24,000 @ $90\frac{7}{8}$%
	June	15	Sold ₹10,000 @ $92\frac{5}{8}$% cum-interest
	August	1	Bought ₹6,000 @ $91\frac{3}{8}$%
	September	1	Sold ₹4,000 @$93\frac{1}{8}$%
	December	1	Bought ₹12,000 @$94\frac{1}{8}$% cum-interest.

Prepare Investment Account for the year ended 31.02.2013 assuming brokerage at $\frac{1}{8}$% in each case. (Detailed workings are to be given). **[8+8]**

6 (a) Samar Ltd. took on lease a land from Bhumi for running a Super bazer on 01.01.2009 on the following conditions:

(i) A fixed rent of ₹8,000 to be paid per month.

(ii) A variable rent at the undernoted percentages on sales would be paid subject to a minimum annual payment of ₹50,000:

Sales Volume	Variable rent
(a) ₹ 1 to ₹50,00,000	(a) 1% of Sales of this category
(b) Over ₹50,00,000 and up to ₹1,00,00,000	(b) 0.75% on sales of sales of this category
(c) Above ₹1,00,00,00	(c) 0.5% on sales of sales of this category

(iii) In case the variable rent falls short of ₹50,000 in any year, the shortfall could be recovered out of excess variable rent of the following two years.

(iv) If normal activities are hampered due to any external reason, the fixed rent will remain suspended for that period.

The annual sales for the first 5 years have been:

Year	Sales by Samar	

	₹	
2009	30,00,000	
2010	45,00,000	
2011	65,00,000	
2012	80,00,000	[Water logging due to heavy shower for one month]
2013	1,20,00,000	

Show the important ledger accounts in the books of Samar Ltd.

(b) The factory premises of Dolly Ltd. were engulfed in fire on 31st March 2013, as a result of which a major part of stock burnt to ashes. The stock was covered by policy for ₹ 2,00,000, subject to Average Clause.

The records at the office revealed the following information:

I. (i) The Company sold goods to dealers on one month credit at dealer's price which is catalogue price less 15%. A cash discount is allowed @ 5% for immediate payment.
(ii) The goods are also sold to agents at catalogue price less 10% against cash payment.
(iii) Goods are sent to branches at catalogue price.
(iv) Catalogue price is cost + 100%.

II. The sale/despatch during the period up to date of fire is –
(i) Sale to Dealer ₹ 6,80,000 (without Cash Discount)
(ii) Sale to Dealer ₹ 6,46,000 (Net of Cash Discount)
(iii) Sale of Agent ₹ 1,80,000
(iv) Despatch to branches ₹ 6,00,000.

III. Stock on 01.01.2013 was ₹ 5,00,000 at catalogue price. Purchases at cost from 01.01.2013 to 31st March, 2013 ₹ 12,50,000.

IV. Salvaged Stock valued at ₹ 90,000.
Compute the amount of claim to be lodged. **[10+6]**

7 (a) Mr. X, a cloth trader of Kolkata opened a Branch at Kanpur on 1-4-2012. The goods were sent by Head Office to the Branch and invoiced at selling price to the Branch, which is 25% of the cost price of Head Office.

The following are the particulars relating to the transactions of the Kanpur Branch:

		₹	₹
Goods sent to Branch (at cost to H.O.)			4,50,000
Sales — Cash			2,10,000
— Credit			3,20,000
Cash collected from Debtors			2,85,000
Return from Debtors			10,000
Discount Allowed			8,500
Cash sent to Branch			
	for Freight	30,000	
	for Salaries	8,000	
	for other expenses	12,000	50,000
Spoiled clothes written off at invoice price			10,000
Normal loss estimated at			15,000

Prepare Branch Stock Account, Branch Debtors Account and Branch Adjustment Account showing the net profit of the Branch.

(b) From the following particulars, which have been extracted from the book of A & Co. Prepare General Ledger Adjustment Account in the Creditors Ledger and Debtors Ledger Adjustment Account in the General Ledger:

	Amount ₹		Amount ₹
Debtors Balance (01.01.2013) Dr.	20,000	Bills Receivable received	3,000
Cr.	300	Bills Receivable endorsed	800
Creditors Balance (01.01.2013) Dr.	200	Bills Receivable as endorsed discounted	300
Cr.	15,000	Bills Receivable discounted	1,400
Purchases (including Cash ₹4,000)	12,000	Bills Receivable dishonoured	400
Sales (including Cash ₹6,000)	25,000	Interest charged on dishonoured bills	30
Cash paid to suppliers in full settlement of claims for ₹ 9,000	8,500	Transfer from one ledger to another	600
Cash received from customers in full settlement of claims of ₹ 15,000	14,1000	Returns (Cr.)	700
Bills Payable accepted (including renewals)	2,000	Debtors Balance (31.12.2013)Cr.	450
Bills Payable withdrawn upon renewals	500	Creditors Balance (31.12.2013) Dr.	10,870

[10+6]

8 (a) On 31 March, 2012 Chinta Money Bank Ltd. had a balance of ₹ 27 crores in "rebate on bill discounted" account. During the year ended 31st March, 2013, Chinta Money Ltd. discounted bills of exchange of ₹ 12,000 crores charging interest at 18% p.a., the average period of discount being for 73 days. Of these, bills of exchange of ₹ 1,800 crores were due for realization from the acceptor/customers after 31st March, 2013, the average period outstanding after 31st March, 2013 being 36.5 days.

Chinta Money Ltd. asks you to show the ledger accounts pertaining to:

I. Discounting of Bills of Exchange; and

II. Rebate on bill Discounted.

(b) Save Money Bank Ltd. had extended the following credit lines to a Small Scale Industry, which had not paid any Interest since March, 2007:

	Term Loan	Export Loan
Balance Outstanding on 31.03.2013	₹ 105 lakhs	₹ 90 lakhs
DICGC/ECGC cover	40%	50%
Securities held	₹ 45 lakhs	₹ 30 lakhs
Realizable value of Securities	₹ 30 lakhs	₹ 24 lakhs

Compute necessary provisions to be made for the year ended 31st March, 2013.

(c) What is register of claim with reference to Insurance Companies?

(d) Write a note on accounting Life Cycle. **[4+4+2+6]**