PAPER 5- FINANCIAL ACCOUNTING

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

	Learning objectives	Verbs used	Definition
LEVEL 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
		Identity	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 x10=20]**

(i) A building costing ₹1,20,000 is depreciated for 3 years on straight line basis, assuming 10 years working life and ₹2,00,000 residual value. At the beginning of fourth year, the building was revalued upwards by ₹3,00,000. Residual value also upwards by ₹1,00,000. The remaining useful life was reassessed as 10 years. Find depreciation to be charged for the fourth year onwards.

Answer:

Depreciation for the fourth year

Particulars	**Amount (₹)**
Original Cost	12,00,000
Less: Depreciation till revaluation [₹(12,00,000 -2,00,000) $\times \frac{3}{10}$	3,00,000
Book Value	9,00,000
Add: Upward Revaluation	3,00,000
Revised Value	12,00,000

Depreciation from the fourth year onwards
= (₹ 12,00,000 – 3,00,000)/10 years = ₹ 90,000 per year.

(ii) A trader acquired Furniture for ₹40,000 but included the same in purchase account. He paid ₹8,000 to a supplier which was omitted to be recorded in the books. State the types of errors and pass journal entries to rectify the errors.

Answer:

The first error is error of principle. The capital expenditure has been claimed as revenue expenditure. The second one is error of omission.

Journal Entries

Particulars	**Dr. (₹)**	**Cr. (₹)**
Furniture A/c Dr. To Purchase A/c [Being error in purchase Account being rectified]	40,000	40,000
Sundry Creditors A/c Dr. To Cash A/c [Being the omission to record the transaction now being recorded]	8,000	8,000

(iii) Compute the amount of subscription to be received which will appear in the credit side of Receipts and Payment Account for the year ended 31.12.2014:

- **Subscription as per Income and Expenditure ₹ 2,000**
- **Subscription for 2013 unpaid at 01.01.2014 ₹200, ₹180 of which was received in 2014**
- **Subscription paid in advance at 01.01.2014 ₹50**
- **Subscription paid in advance at 31.12.2014 ₹40**
- **Subscription for 2014 unpaid at 31.12.2014 ₹70**

Answer:

	₹	₹
Subscription debited to Income & Expenditure Account		2,000
Add: Outstanding at beginning		200
Add: Subscription paid in advance 31.12.14		40
		2,240
Less: Subscription paid in advance on 01.01.2014	50	
Balance unpaid for 2013 ₹ (200 -180)	20	
Outstanding subscription for 2014	70	140
		2,100

(iv) Working capital of a company is ₹3,00,000 and total debts are ₹12,00,000. Bank overdraft is ₹2,00,000 Then calculate the Quick ratio.

Answer:

Working Capital = C.A. – C.L. or, 3,00,000
= C.A. – 12,00,000 or, C.A.
= 12,00,000 + 3,00,000
= 15,00,000

Quick Ratio $= \frac{\text{C.A.}}{\text{C.L.} - \text{Bank overdraft}}$

$= \frac{15,00,000}{12,00,000 - 2,00,000}$

$= \frac{15,00,000}{10,00,000} = 3:2$

(v) Calculate the interest income to be recognized for Save Here Bank Ltd. for the year ended 31.03.2014 from the following information:

(₹ in Crores)

Interest	Total Interest collected	Earned but not collected	
		On PA	On NPA
Interest on Cash Credit	**10,000**	**4,000**	**4,200**
Interest on Overdraft	**3,000**	**1,000**	**3,500**
Interest on Term Loan	**10,000**	**400**	**5,000**

Answer:

		(₹ in Crores)
Interest on Cash Credit	(10,000 + 4,000)	= 14,000
Interest on Overdraft	(3,000 + 1,000)	= 4,000
Interest on Term Loan	(10,000 + 400)	= 10,400
Interest income to be recognised		28,400

(vi) Discuss the treatment of Tread Discount and Quantity Rebates under AS – 9.

Answer:

Trade Discount and Volume Rebates received do not fall within the definition of revenue, since they represent a reduction of cost.
Hence, these discounts and volume rebates given should be deducted to determine revenue.

(vii) Calculate the Amount of claim under the loss of profit method if gross claim is ₹ 44,274, sum assured is ₹ 1,00,000 and Gross profit on adjusted Annual Turnover is ₹1,30,000.
Answer:

$$\text{Amount of Claim} = \text{Gross claim} \times \frac{\text{Sum Assured}}{\text{Gross profit on Adjusted Annual Turnover}}$$

$$\text{Amount of Claim} = 44,274 \times \frac{1,00,000}{1,30,000}$$

= ₹ 34,057

(viii) On 1st April, "A" purchased 12% debentures in S Ltd. for ₹3,50,000. The face value of these debentures were ₹3,00,000. Interest on debentures falls due on 30th June and 31st December. Compute the cost of acquisition of debentures.

Answer:

Computation of Cost of Acquisition of Debentures

Particulars	₹
Cum-interest purchase price of debentures	3,50,000
Less: Interest from the last date of payment of interest to the date of purchase [₹3,00,000 × 3/12 × 12%]	9,000
Cost of debentures at the time of acquisition	3,59,000

(ix) Namitha Ltd. furnished the following particulars:
Debtors ledger include ₹24,000 due from Mitra Ltd. whereas creditors ledger include ₹ 14,400 due to Mitra Ltd.
Journalise the above.

Answer:

In the books of Namitha Ltd.
Journal (without narration)

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
	Creditors Ledger Adjustment A/c Dr. To Debtors ledger Adjustment A/c		14,400	 14,400

(x) List the constituents of Central Electricity Regulatory Commission (CERC)?

Answer:

The Central Commission shall consist of the following members:

- A chairperson and three members;
- The Chairperson of the Authority who shall be the Member, ex-officio.

2. (Answer any two)

(a) From the following information, ascertain the value of stock as on 31.03.2014:

	₹
Value of stock on 01.04.2013	**70,000**
Purchase during the period from 01.04.2013 to 31.03.2014	**3,46,000**
Manufacturing expense during the above period	**70,000**
Sales during the same period	**5,22,000**

At the time of valuing stock on 31.03.2013 a sum of ₹6,000 was written-off a particular item which was originally purchased for ₹20,000 and was sold for ₹16,000. But for the above transactions the gross profit earned during the year was 25% on cost. [4]

Answer:

Statement of Valuation of Stock

as on 31st March 2014

Particulars	₹	₹
Value of Stock on 01.04.2013		70,000
Add: Purchase from 01.04.2013 to 31.03.2014		3,46,000
Add: Manufacturing Expenses		70,000
		4,86,000
Less: Cost of Sales:		
Sales	5,22,000	
Less: Gross Profit	1,03,200	4,18,800
Value of stock as on 31.03.2014		67,200

Particulars	₹
Gross Profit on Normal Sales i.e., ₹5,22,000 – ₹16,000 = ₹5,06,000 x (20/100)	1,01,200

Add: Gross profit on abnormal item i.e., ₹16,000 – ₹14,000 (₹20,000 – ₹6,000)	2,000
	1,03,200

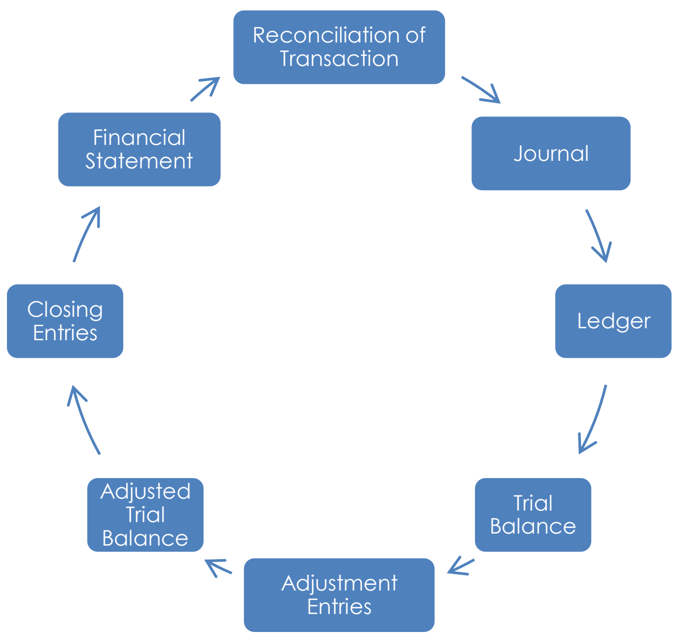
(b) Write a note on Accounting Life Cycle. [4]

Answer:

When complete sequence of accounting procedure is done which happens frequently and repeated in same directions during an accounting period, the same is called an accounting cycle.

Steps/Phases of Accounting Cycle

The steps or phases of accounting cycle can be developed as under:



ACCOUNTING CYCLE

i. **Recording of Transaction:** As soon as a transaction happens it is at first recorded in subsidiary book.

ii. **Journal :** The transactions are recorded in Journal chronologically.

iii. **Ledger:** All journals are posted into ledger chronologically and in a classified manner.

iv. **Trial Balance:** After taking all the ledger account's closing balances, a Trial Balance is prepared at the end of the period for the preparations of financial statements.

v. **Adjustment Entries:** All the adjustments entries are to be recorded properly and adjusted accordingly before preparing financial statements.

vi. **Adjusted Trial Balance:** An adjusted Trail Balance may also be prepared.

vii. **Closing Entries:** All the nominal accounts are to be closed by the transferring to Trading Account and Profit and Loss Account.

viii. **Financial Statements:** Financial statement can now be easily prepared which will exhibit the true financial position and operating results.

(c) D's Cash Book shows an overdrawn position of ₹3,630 on 31.3.2014, though the Bank Statement shows only ₹3,378 overdrawn. Detailed examination of two records revealed the following:

(i) A cheque for ₹ 1,560 in favour of Rath Associates has been omitted by the Bank from its statement, thus, cheque having been debited to another customer's account.

(ii) The debit side of Cash Book has been under cast by ₹ 300.

(iii) A cheque for ₹ 182 drawn in payment of electricity amount had been entered in the Cash Book on ₹ 128 & was shown correctly in the Bank statement.

(iv) A cheque for ₹ 210 from S. Gupta having been paid into Bank, was dishonoured & shown as such on Bank statement, although no entry relating to dishonoured had been made in Cash Book.

(v) The Bank had debited a cheque for ₹ 126 to D's A/c, in error. It should have been debited to Sukhal's A/c.

(vi) A dividend of ₹ 90 on D's holding of equity shares has been duly shown by Bank, no entry has been made in Cash Book.

Prepare the amended Cash Book. **[4]**

Answer:

Dr. **Cash Book (Bank Column only)** **Cr.**

Date	Particulars	Amount (₹)	Date	Particulars	Amount (₹)
2014 March 31	To Dividend A/c.	90	2014 March 31	By Balance b/d.	3,630
	" Error (under casting in debited side)	300		" Electric Charges A/c. Cheque drawn for [₹ 182 wrongly recorded as ₹ 128 (₹ 182 – ₹ 128)]	54
	" Balance c/d.	3,732		" S. Gupta's A/c. -Cheque dishonoured	210
				" Bank Interest	228
		4,122			4,122
				By Balance b/d.	3,732

3. **(Answer any two)**

(a) (i) 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 ₹ 70,000 made by Noida Branch to Head Office on 29th March, 2015 and received by the Head Office on 5th April, 2015.**
- **Goods of ₹ 1,26,000 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 ₹ 60,000 as salary to a visiting Head Office Official. [3]**

Answer:

Journal of H.O.

	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	70,000	 70,000
(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	1,26,000	 1,26,000
(iii) 31.3.15	Salaries A/c Dr. To Noida Branch A/c (H.O. official's salaries paid by Noida Branch)	60,000	 60,000

(ii) Mithil Mukherjee sells two products manufactured in her own factory. The goods are made in two departments, X and Y, for which separate sets of accounts are maintained. Some of the manufactured goods of department X are used as raw materials by department Y, and vice versa.

From the following particulars, you are required to ascertain the total cost of goods manufactured in department X and Y:

Particulars	Department X	Department Y
Total units manufactured	10,00,000	5,00,000
Total cost of manufactured	₹10,000	₹5,000

Department X transferred 2,50,000 units to Department Y and the latter transferred 1,00,000 units to the former. [7]

Answer:

Suppose a is the total cost of Department X, and
b is the total cost of Department Y

$$a = ₹10,000 + \frac{1}{5}b$$

$$b = ₹5,000 + \frac{1}{4}a$$

or, $a = ₹10{,}000 + \frac{1}{5}(5{,}000 + \frac{1}{4}a)$

$= ₹10{,}000 + 1{,}000 + \frac{1}{20}a$

$= ₹11{,}000 + \frac{1}{20}a$

Or, 20 a = ₹2,20,000 + a

Or, 19a = ₹2,20,000

$= \frac{2{,}20{,}000}{19}$

= ₹11,579

Now, b = $₹5{,}000 + \frac{1}{4}a$

$= ₹5{,}000 + \frac{1}{4} \times ₹11{,}579$

=₹5,000 + ₹2,895

=₹7,895

Total Cost goods manufactured

Particulars	Amount (₹) Department X	Amount(₹) Department Y
Cost (already given)	10,000	5,000
Add: Cost of goods transferred	1,579	2,895
	11,579	7,895
Less: Transfer to department	2,895	1,579
Net Cost of Goods manufactured	8,684	6,316

(iii) 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."

(b) (i) A and M are two partners sharing profits and losses in the ratio of 3 : 2. On 31.12.2014 their Capital Accounts stood at ₹ 55,000 and 45,000 after distribution of net profit of ₹15,000 and due consideration of drawings of the partners for ₹6,000 and ₹4,000 respectively. After closing the books following discrepancies were discovered:

- **An item in the inventory was valued at ₹12,800 but had a realizable value of ₹8,300.**
- **₹2,400 paid for insurance premium for the year ending on 31.03.2015 had been debited to profit and loss account.**
- **Interest on capital at 5% on partners' capital as at the beginning of the year and interest on drawings of partners at 8% p.a. were left out of consideration.**

Ascertain the correct net profit of the firm and redistribute the profit by preparing a profit and loss appropriation account and determine the balance of partners' capital accounts. [9]

Answer:

Calculation of correct net profit:

Particulars	₹
Net profit as per accounts	15,000
Less: Decrease in value of inventory : ₹ (12,800 – 8,300)	4,500
	10,500
Add: Prepaid insurance : 3/12 × ₹ 2,400	600
	11,100

Profit and Loss Appropriation Account
for the year ended 31.12.2014

Dr. **Cr.**

Particulars	₹	Particulars	₹
To Interest on capital:		By Net Profit (as adjusted)	11,100
A 2,600		Interest on drawings (see Note)	
M 2,150	4,750	A 240	
To Share of residue of profit:		M 160	400
A (3/5) 4,050			
M (2/5) 2,700	6,750		
	11,500		11,500

Capital Accounts

Dr. **Cr.**

Particulars	A (₹)	M (₹)	Particulars	A (₹)	M (₹)
31.12.2014			01.01.2014		
To Drawings	6,000	4,000	By Balance b/f (see Note)	52,900	43,000
To Interest on drawings	240	160	31.12.2014		
To Balance c/d	52,410	43,690	By Interest on capital	2,600	2,150
			By Share of residue	4,050	2,700
	58,650	47,690		58,650	47,690
			01.01.2015		
			By Balance b/d	52,410	43,690

Working Notes:

(1) In the absence of actual dates of drawings, interest thereon on has been calculated for the average period of six months.

(2) Balance of capital accounts in 01.01.2014

	A (₹)	B (₹)
Balance as given on 31.12.2014	55,000	45,000
Add: Drawings during the year	6,000	4,000

	61,000	49,000
Less: Profit ₹ 15,000 credited in the ratio of 3 : 2	9,000	6,000
Balance on 01.01.2015	52,000	43,000

(ii) Simptronic sells computers on Hire Purchase basis at cost plus 20%. Terms of sale are ₹48,000 down payment and eight monthly instalments of ₹ 24,000 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. [3]

Answer :

Total HP price per computer = Down payment + Instalments = 48,000 + (8 × 24,000)
= ₹ 2,40,000

HP Price = 120% of cost. So, cost per computer = $\frac{2,40,000}{120\%}$ = ₹ 2,00,000

Value of repossessed computers = 50% of cost = 50% of ₹2,00,000 = ₹ 1,00,000 each

(c) (i) On April 1, 2014 the Provision for Doubtful Debts Account of PPL Ltd. showed a balance of ₹ 80,000 and the Debtors amounted to ₹18,00,000. Out of these, during the year ended March 31, 2015, Debtors amounting in all to ₹12,25,000 paid their dues in full, but the following debts provide bad or doubtful:

Amir (₹ 30,000)	**bad to the full extent**
Abir (₹ 60,000)	**insolvent, estate expected to pay 50 paise in the rupee and**
Asif (₹ 15,000)	**paid $33\frac{1}{3}\%$ in full settlement**

The remaining debts were considered somewhat doubtful on March 31. The following further debts became due during 2014-2015 but were outstanding on March 31, 2014:

Dolon (₹ 40,000)	**expected to prove wholly bad**
Era (₹ 35,000)	**expected to prove 8%**
Fullara (₹ 3,00,000)	**expected to prove bad to some extent**
Gungun (₹ 5,00,000)	**expected to provie 5% bad**
Harshbardhan (₹ 4,00,000)	**expected to prove wholly good**

It was decided to write off actual bad debts to create provision of 5% on debts of unknown and doubtful nature.

Show the Provision for Doubtful Debts Accounting for the year 2014-2015. [8]

Answer:

Books of PPL Ltd.
Provision for Doubtful Debts Account

Dr. **Cr.**

Date	Particulars	Amount	Date	Particulars	Amount
Up to 31.3.15	To Bad Debts A/c	40,000	01.04.14	By Balance b/d	80,000
31.3.15	" Balance c/d	1,36,300	31.03.15	" Profit & Loss A/c (Bal. amt.)	96,300
		1,76,300			1,76,300
			01.04.15	By Balance b/d	1,36,300

Working Notes:

Actual Bad Debts

	₹
Amir's Dues	30,000
Dues from Asif $\left[\frac{2}{3} \text{ of } 15,000\right]$	10,000
	40,000

Debts of Unknown Nature

		₹
	Opening Balance of Debtors	18,00,000
Less :	Paid in full	12,25,000
		5,75,000
Less :	Total claims from Amir, Abir and Asif [30,000 + 60,000 + 15,000]	1,05,000
		4,70,000
Add:	Dues from Fullara(as expected to prove bad, but extent not known)	3,00,000
		7,70,000

Closing Provision

	₹
(a) Specific	
Abir [50% of ₹ 60,000]	30,000
Dolon [100% of ₹ 40,000]	40,000
Era [8% of ₹ 35,000]	2,800
Gungun [5% of ₹ 5,00,000]	25,000
	97,800
(b) General [5% of ₹ 7,70,000]	38,500
	1,36,300

(ii) On March 31, 2014, Ping-Pong Ltd. traded in an old machine having a carrying amount of ₹ 3,36,000, and paid cash difference of ₹ 1,20,000 for a new machine having a total cash price of ₹ 4,10,000. On March 31, 2014, what amount of loss should Ping-Pong Ltd. recognize on this exchange? [4]

Answer:

As per AS-10, when a fixed asset is acquired in exchange or in part exchange for another asset, the cost of the asset acquired should be recorded either at fair market value or at the net book value of the asset given up, adjusted for any balancing payment or receipt of cash or other consideration. The cash price of the new machine represents its fair market value (FMV). The FMV of the old machine can be determined by subtracting the cash portion of the purchase price (₹ 1,20,000) from the total cost of the new machine. ₹ 4,10,000 - ₹ 1,20,000 = ₹ 2,90,000. Since the book value of the machine ₹ 3,36,000 exceeds its FMV on the date of the trade in ₹ 2,90,000, the difference of ₹ 46,000 must be recognized as a loss, however, if the FMV of the old machine had exceeded its book value, the gain would not be recognized.

4. (Answer any two)

(a) Rectify or adjust the following affecting ledgers maintained under self-balancing system:
(i) Purchase Day Book under cast by ₹2,000.
(ii) Sales to Mr. B of ₹2,600 was entered in the books as ₹260.
(iii) A cheque of ₹5,000 received from Milan & Co. was recorded as received from Mill One & Co.
(iv) A debit balance of ₹300 in the account of Pritam in Sales Ledger was set off against his account in the creditors ledger. But this has not been recorder. [4]

Answer:

Particulars	Dr. (₹)	Cr. (₹)
(i) General Ledger Adjustment A/c Dr. To, Purchase Ledger Adjustment A/c (in General Ledger)	2,000	 2,000
(ii) Sales Ledger Adjustment A/c (in General Ledger) Dr. To, General Ledger Adjustment A/c (in Sales Ledger)	2,340	 2,340
(iii) No Entry		
(iv) Creditors Ledger Adjustment A/c (in General Ledger) Dr. To, General Ledger Adjustment A/c (in Debtors Ledger)	300	 300
General Ledger Adjustment A/c (in Debtors Ledger) Dr. To, Debtors Ledger Adjustment A/c (in General Ledger)	300	 300

(b) A firm keeps its sold and bought ledgers on self-balancing system. From the following particulars, prepare the adjustment account in the sold ledger.

Trade Debtors on 1st April, 2013 — ₹62,000; Trade Creditors on 1st April, 2013—₹ 25,000; Credit Purchases — ₹1,03,000; Credit Sales—₹ 1,34,000; Cash received from trade debtors—₹ 78,000; Returns Inward— ₹ 3,000; Acceptances given—₹ 40,000; Returns Outward—₹ 2,500; Acceptances from trade debtors dishonoured— ₹ 5,000; Discount allowed to trade debtors—₹ 1,000; Bad Debts written off—₹ 2,000; Bad Debts written off in the previous years now recovered—₹ 5,000; Trade Creditors on 31st March, 2014 — ₹ 10,500; Trade Debtors on 31st March, 2014 — ₹ 1,17,000. [4]

Answer:

In the Sold Ledger of…..
General Ledger Adjustment Accont

Dr. **Cr.**

Date	Particulars	Amount	Date	Particulars	Amount
31.03.14	To, Sold Ledger Adjustment A/c:		01.04.13	Balance b/d	62,000
	Cash Received	78,000		By, Sold Ledger Adjustment A/c:	
	Returns Inward	3,000			
	Discount Allowed	1,000		Credit Sales	1,34,000
	Bad Debts	2,000		Acceptance from	
	To, Balance c/d	1,17,000		Debtors Dishonoured	5,000
		2,01,000			2,01,000

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

Answer:

Sometimes it may happen that debtors ledger shows a credit balance and creditor ledger shows a debit balance i.e., the adverse balance of debtors ledger and creditors ledger. Usually, credit, balance in debtors ledger may happen on account of advance taken from creditors or allowances given to customers for different products after closing the accounts. Similarly, debit balance in creditors ledger may appear on account of excess payment made or goods returned to creditors after closing the accounts etc. Thus, these contra transactions are to be adjusted. But credit balance in one ledger must not be set off against debit balance of another ledger. These should be treated separately.

5. (Answer any two)

(a) Krishna Construction Ltd. undertook a contract on 1st January to construct a building for ₹160 Lakhs. The Company found on 31st March that it had already spent ₹117,00,000 on the construction. Prudent estimate of additional cost for completion was ₹63,00,000.
What amount should be charged to revenue and what amount of Contract Value to be recognised as Turnover in the accounts for the year ended 31st March as per provision of AS – 7 (revised)? **[4]**

Answer:

Estimated total contract cost	Cost till date+ Further Costs = 117,00,000 + 63,00,000	180,00,000
Percentage of Completion	Cost incurred till date ÷ Estimated total costs = 117.00 ÷ 180.00	65%
Total Expected Loss to be provided for	Contract Price – Total Costs = 160 – 180	20,00,000
Contract Revenue	65% of 160 lakhs	₹104,00,000
Less: Contract Costs		₹117,00,000
Loss on Contract		₹13,00,000
Less: Further provision required in respect of expected loss		(₹7,00000)

Expected loss recognised		₹20,00,000

The relevant disclosure under AS — 7 is as follows —

Particulars	₹ in lakhs
(a) Contract Revenue	104,00,000
(b) Cost Expense Charged	117,00,000
(c) Provision for future losses to be charged	7,00,000

(b) Amra Sobai Society receives an entrance fee of ₹10,000 from new members. Members are also required to pay a membership fee of ₹3,000 at the time of entrance. The membership fee permits only membership and all other services or products are paid for separately. Give the accounting treatment for entrance fees and membership fees. [4]

Answer:

(i) Entrance Fees: Entrance Fee of ₹10,000 received from new members should be capitalised.

(ii) Membership Fees: If the Membership Fee permits only membership and all another services or products are paid for separately, or there is a separate annual subscription, the fee should be recognised when received. Hence, the amount of ₹3,000 should be treated as revenue when received.

(c) Discuss the Development Stage of an Internally Generated Software. [4]

Answer:

Internally generated software arising at the development stage should be recognized as an asset if, and only if, an enterprise can find out all of the following:

The intention of the enterprise to complete the internally generated software and use it to perform the functions needed.

The intention to complete the internally generated software can be demonstrated if the enterprise commits to the funding of the software project:

(i) The technical feasibility of installing the internally generated software.

(ii) The ability of the enterprise to use the software;

(iii) The probable usefulness of and economic benefits from the software.

(iv)The availability of adequate technical, financial and other resources to complete the development and to use the software; and

(v) The capacity to measure the expenditure attributable to the software during its development.

Examples of development activities in respect of internally generated software include:

Detailed programme design for the software considering product function, feature, and technical requirements to their most detailed, logical form and is ready for coding.

6. **(Answer any two)**

(a) (i) Mr. Ramdas sends goods to his customers on sale or return basis. The following transactions took place during the month of April 2014 :

		₹
April 4	**Goods sent on Sale or Return basis at cost plus 20%**	**60,000**
8.	**Goods returned by customers**	**15,000**
20.	**Sale information received from customers**	**30,000**
30.	**No intimation received about the goods (i.e., neither sold nor returned)**	**15,000**

Assume that the accounts are closed on 31st March every year and Ramdas records the above transactions as ordinary sales basis. [6]

Answer:

Date	Particulars	L.F	Debit ₹	Credit ₹
4.4.2014	Debtors A/c Dr. To, Sales A/c (Being goods sent on sale or approval basis and treated as sales)		60,000	60,000
8.4.2014	Returns Inward/ Sales A/c Dr. To, Debtors A/c (Being goods returned by customers)		15,000	15,000
20.4.2014	NO ENTRY			
30.4.2014	Closing Stock A/c Dr. To, Trading A/c (Recorded at cost price)		15,000	15,000

(ii) M Ltd. acquires 2000, 12% Debenture of S Ltd. on 1.4.2013 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 2013. Ascertain the amount of interest and cost of debentures. [2]

Answer:

Cost of Investment

	₹
Total payments to be made – 2000 × ₹ 105	2,10,000
Less: Inclusion of Interest to be excluded:	
(from 1.1.2013 to 1.4.2013 i.e., 3 months)	
Or ₹ 2,00,000 x (12/100)×(3/12)	6,000
	2,04,000

Cost of Investment ₹ 2,04,000 and the Interest ₹ 6,000.

(b) (i) To accommodate Asha, Bipasha accepts a bill drawn on 01.01.2013 for ₹10,000 payable after three months. On the same date, Asha gets the bill discounted @ 24% p.a. On due date, Asha remits the amount of bill to Bipasha to honour the bill and the bill is duly paid by Bipasha on due date. Show the Journal Entries in the books of Asha and Bipasha. [6]

Answer:

Journal Asha

Date	Particulars		Debit (₹)	Credit (₹)
1.1.2013	Bill Receivable A/c To Bipasha A/c (For bill received from Bipasha after acceptance)	Dr.	10,000	 10,000
	Bank A/c Discount on BillsA/c To Bill Receivable A/c (For discounting of bill @24% p.a. for 3 months) Discount=10,000 x 24/100 x 3/12 = ₹600	Dr. Dr.	9,400 600	 10,000
4.4.2013	Bipasha A/c To Cash A/c (For amount sent to Bipasha on due date to honour the bill)	Dr.	10,000	 10,000

Journal Bipasha

Date	Particulars		Debit (₹)	Credit (₹)
1.1.2013	Asha A/c To Bill Payable A/c (For acceptance of Bill Drawn by Asha)	Dr.	10,000	 10,000
4.4.2013	Cash A/c To Asha A/c (For cash received from Asha on due date)	Dr.	10,000	 10,000
	Bill Payable A/c To Cash A/c (For Payment of bill on due date)	Dr	10,000	 10,000

(ii) Discuss the accounting treatment relating to the calculation of closing stock, if Joint Ventures is running for more than one accounting period. [2]

Answer:

Joint Ventures running for more than one accounting period:

If a joint venture runs for more than one accounting period, it poses a special problem of calculation of the closing stock. The stock should be valued on the basis of basic cost plus proportionate non-recurring expenses and it should be shown in the memorandum joint venture account on the credit side at the end of the year and on the debit side of the memorandum joint venture account of the next year. The other accounts should be made in the usual manner. However, if the co-ventures are interested in an interim settlement at the end of the first year, they should bring in their proportionate share in the value of the closing stock in their respective 'Joint Venture with Co-Venturer Account' and finally settle their account. The share of stock should be carried forward and shown on the debit side of the 'Joint Venture with Co-venturer Account'.

(c) On 20th July, 2015 the godown and the business premises of a merchant were affected by fire. From the accounting records salvaged, the following information is made available to you:

Stock of Goods on 1st April, 2014	**₹1,00,000**
Stock of Goods at 10% lower than cost on 31st March, 2015	**₹1,08,000**
Purchases of Goods for the year 1st April, 2014 to 31st March, 2015	**₹4,20,000**
Sales for the same period	**₹6,00,000**
Purchases less returns from 1st April, 2015 to 20th July, 2015	**₹1,40,000**
Sales Returns for the above period	**₹3,10,000**

Sales up to 20th July, 2015 included ₹40,000 for which goods had not been despatched. Purchases up to 20th July, 2014 did not include ₹20,000 for which purchase invoices had not been received from suppliers, though goods had been received at the godown.
Goods salvaged from the accident were worth ₹12,000 and these were handed over to the insured. Ascertain the value of the claim for the loss of goods/stock which could be preferred to the insurer. [8]

Answer:

Trading Account for the year ended 31.03.2015

Dr. **Cr.**

Particulars	Amount (₹)	Amount (₹)	Particulars	Amount (₹)	Amount (₹)
To Opening Stock		1,00,000	By Sales		6,00,000
To Purchases		4,20,000	By Closing Stock	1,08,000	
To Gross Profit		2,00,000	Add: Under Valuation $\left[\frac{10}{90} \text{ of } 1,08,000\right]$	12,000	1,20,000
		7,20,000			7,20,000

Rate of Gross Profit in 2013 -14 = $\frac{₹2,00,000}{₹6,00,000} \times 100 = 33\frac{1}{3}\%$ on sales.

The net purchases in current year should be ₹ 1,40,000 + ₹ 20,000
Similarly Sales = ₹ 3,10,000 – ₹ 40,00.0 = ₹ 2,70,000

Memorandum Trading Account for the from 01.04.15 to 20.07.15

Dr. **Cr.**

Particulars	Amount (₹)	Amount (₹)	Particulars	Amount (₹)	Amount (₹)
To Opening Stock		1,20,000	By Sales		2,70,000
To Purchases		1,60,000	By Closing Stock (Bal. fig.)		1,00,000
To Gross Profit $\left[\frac{1}{3} \text{ of } ₹2,70,000\right]$		90,000			
		3,70,000			3,70,000

Statement of Claim for Loss of Stock

	₹
Estimated Value of Stock on 20.7.15	1,00,000
Less: Value of Salvaged Stock	12,000
Stock Lost by Fire	88,000

7. (Answer any two)

(a) (i) The Life Insurance Fund of Bharat Life Insurance Co. Ltd. was ₹75 lakhs on 31.03.2015. Its actuarial valuation on 31.03.2015 disclosed a net liability of ₹63.75 lakhs. An interim bonus of ₹1,20,000 was paid to the policy holders during previous two years. It is now proposes to carry forward ₹2,25,000 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. [5]

Answer:

Valuation Balance Sheet as on 31.3.2015

Liabilities	₹	Assets	₹
Net liabilities	63,75,000 11,25,000	Life Insurance Fund	75,00,000
	75,00,000		75,00,000

Net profits for two year period.

	₹
Profit as per valuation balance sheet-	11,25,000
Add : Interim bonus paid	1,20,000
Net Profit	12,45,000

Distribution of profits:

	₹
Net profits -	12,45,000
Less : Amount proposed for carry forward	2,25,000
	10,20,000
Share of policy holders – 95% of 10,20,000	9,69,000
Less : Interim bonus	1,20,000
Amount due to policy holders	8,49,000
Share of shareholders (5% of 10,20,000)	51,000

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

Answer:

The State Electricity Commission shall be a body corporate, having perpetual succession and a common seal with power to acquire, hold and dispose of property, both movable and immovable, and to contract and shall, by the said name, sue or be sued.

Functions: The functions of the State Commission include determining the tariff of generation, supplying, transmission and wheeling of electricity companies, wholesale, bulk or retail, regulating the inter-State transmission of electricity, to issue licenses, to levy fees, to fix trading margin etc.

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

i. Date of Commercial Operation of COD = 1st April 2010

ii. Approved Opening Capital Cost as on 1st April 2010 = 1,50,000

iii. Details of allowed Additional Capital Expenditure. Repayment of Loan and Weighted Average

Rate of Interest on Loan is as Follows:

	1st year	2nd year	3rd year	4th year
Additional Capital Expenditure (Allowed)	**10,000**	**3,000**	**2,000**	**1,000**
Repayment of Loan	**8,000**	**10,000**	**10,000**	**11,000**
Weighted Average Rate of Interest on Loan	**7.4**	**7.5**	**7.6**	**7.5**

[8]

Answer:

Computation of Interest on Loans

Particulars	**1st year**	**2nd year**	**3rd year**	**4th year**
A. Opening Loan (70%)	1,05,000	1,12,000	1,14,100	1,15,500
B. Additional Loan (70%)	7,000	2,100	1,400	700
C. Less: Repayment of Loan during the year	8,000	10,000	10,000	11,000
D. Net Closing Loan (A + B - C)	1,04,000	96,100	87,500	77,200
E. Average Loan [(A + D)/2]	1,04,500	1,00,050	91,800	82,350
F. Weighted Average Rate of Interest on Loan	7.4	7.5	7.6	7.5
G. Interest on Loan (E x F)	7,733	7,503.75	6,976.80	6,176.25

(c) (i) Calculate Rebate on Bills discounted as on 31 December,2014 from the following data and show journal entries:

	Date of Bill	**₹**	**Period**	**Rate of Discount**
(i)	**15.10.2014**	**50,000**	**5 months**	**8%**
(ii)	**10.11.2014**	**30,000**	**4 months**	**7%**
(iii)	**25.11.2014**	**40,000**	**4 months**	**7%**
(iv)	**20.12.2014**	**70,000**	**3 months**	**9%**

[6]

Answer:

Calculation of Rebate on Bills Discounted

₹	**Due Date**	**Days after 31 December,2014**	**Discount Rate**	**₹**
50,000	18/03/2015	31+28+18=77	8%	843.84
30,000	13/03/2015	31+28+13=72	7%	414.25
40,000	28/03/2015	31+28+28=87	7%	667.40
70,000	23/03/2015	31+28+23=82	9%	1,415.34
Total				3,340.83

Date	**Particulars**	**Dr. ₹**	**Cr. ₹**
Dec.31	Interest and Discount Account Dr. To, Rebate on Bills Discounted (Being the provision for unexpired discount required at the end of the year)	3,340.83	3,340.83

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

Answer:

Following are the statistical books to be maintained by a banking company:

- Books recording the Average Balance in Loan and Advances etc.
- Books recording the Deposits received and amount paid out each month in the various departments.
- Number of Cheques paid.
- Number of Cheques, Drafts, Bills etc. collected.