Paper 5 - Financial Accounting

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

The figures in the margin on the right side indicate full marks.
Answer Question No. 1 which is compulsory and any five from the rest.

Working Notes should form part of the answer. Whenever necessary, suitable assumptions should be made and indicated in answer by the candidates.

1. (a) Answer the following questions (give workings) **[2 x 5=10]**

(i) Jhilam and Punam are partners, sharing profit or low in the ratio 3 : 2. They admit Nilam for 1/6th share of profits in the firms of which she takes 2/3rd from Jhilam and 1/3rd from Punam. Find the new profit sharing ratio.

Answer:

Sacrifice of Jhilam = $\frac{1}{6} x \frac{2}{3} = \frac{1}{9}$ and of Punam $\frac{1}{6} x \frac{1}{3} = \frac{1}{18}$

New share of Jhilam = $\frac{3}{5} - \frac{1}{9} = \frac{27-5}{45} = \frac{22}{45}$

New share of Punam = $\frac{2}{5} - \frac{1}{18} = \frac{36-5}{90} = \frac{31}{90}$

Share of Nilam = $\frac{1}{6}$

Hence, new ratio of Jhilam, Punam and Nilam = $\frac{22}{45} : \frac{31}{90} : \frac{1}{6}$ or 44 : 31 : 15.

(ii) Following information are obtained from the books of a club:

- **Subscription received during the year ending 31st March, 2014 ₹ 2,56,000, out of which ₹ 8,000 was for the year 2014-15 and ₹ 11,000 for the year 2012-13.**
- **Subscription was outstanding on 01.04.2013 ₹18,000 and on 31.03.2014 for 2013-14 ₹ 21,000. Calculate the amount of subscription to be credited to Income and Expenditure Account for the year ending 31.03.2014.**

Answer:

Particulars	₹
Subscription received during 2013 – 14	2,56,000
Less: Subscription received in advance ₹ 8,000	
Subscription received for 2012-13 ₹ 11,000	19,000
	2,37,000
Add: Subscription outstanding on 31.03.2014 for the year 2013-14	21,000
Amount creditable to Income & Expenditure A/c	2,58,000

(iii) Prakash, lessee of a coal mine with rent of ₹ 30,000 a year and with a rate of royalty at ₹ 5 per ton of coal extracted. If the production in the first year is 4,000 tons, find rent payable.

Answer:

₹ 15,000 (being assured Rent)

(a) Royalty payable = ₹5 × 4,000 = ₹20,000
(b) Minimum Rent = ₹30,000 (as per question).
Rent Payable is the higher of (a) and (b) i.e. ₹30,000.

(iv) Lakshmi Bhandar Bank Ltd. had extended the following credit lines to a Small Scale Industry, which had not paid any interest since March 2008:

Balance outstanding out off term loan on 31.03.2014	**₹ 90 Lakhs**
DICGC Cover	**40%**
Securities held	**₹ 40 Lakhs**
Realizable value of securities	**₹ 36 Lakhs**

You are required to compute the necessary provisions to be made for the year ended 31st March, 2014.

Answer:

Particulars	**₹ in lakhs**
Balance outstanding of term loan on 31.03.2014	90
Less: Realizable value of securities	36
	54
Less: DICGC Cover @ 40%	21.60
Unsecured loan	32.40

Provision required:

100% for unsecured portion ₹ 32.40 lakhs	32.40
100% for secured portion ₹ 36 lakhs	36.00
Total provision required	68.40

(v) The fair value of Plan assets of Vipul Ltd. at beginning and end of the year 2013-2014 were ₹ 4,00,000 and ₹ 5,70,000 respectively. The employer's contribution to the plan during the year was ₹ 1,40,000. If benefit payments to retirees were ₹ 1,00,000. What would be the actual return on plan assets (as per AS- 15)?

Answer:

Actual Return = Fair value of assets (end of year) - Fair Value of assets (beginning of year) - Employer's contribution + benefit payments = (5,70,000 – 4,00,000 – 1,40,000 + 1,00,000) = ₹ 1,30,000.

(b) Fill in the blanks in the following sentences using appropriate word:
[5×1=5]

(i) Debenture holders are of a ___________ company.
(ii) In Branch Accounting system, the Branch prepares the periodic returns based on which the accounting records are maintained at the ———————— office.
(iii) The contract of insurance is a contract of__________.
(iv) Capital is shown on the liability side because of ____________ concept.

(v) Current Ratio is a __________ Ratio.

Answer:

(i) Creditors
(ii) Head
(iii) Guarantee
(iv) Business Entity
(v) Solvency

(c) From the four alternative answers given against each of the following cases, indicate the correct answer: [5×1=5]

(i) For Sales Return at Branch, in case of dependent branches, entry to be passed in HO books,
(A) Debit Branch Debtors A/c, Credit Branch Stock A/c.
(B) Debit Branch Stock A/c , Credit Branch Debtors A/c.
(C) Debit Sales A/c, Credit Branch Debtors A/c.
(D) Debit Sales A/c, Credit Branch Stock A/c.

(ii) Which of the following is treated as contingent liability as per AS 4?
(A) Obligations under retirement benefit plan.
(B) Commitments arising from long term lease contract.
(C) Arrears of fixed cumulative dividends.
(D) Liabilities of Life and General Insurance out of policies issued by enterprise.

(iii) Which of the following is not an unsecured loan in Balance sheet of a Company?
(A) Acceptance of Fixed Deposits.
(B) Creation of Sinking Funds.
(C) Loans and advances from others.
(D) Short term loans from Banks.

(iv) Any profit prior to incorporation may be:
(A) Credited to Capital Reserve A/c.
(B) Debited to Goodwill A/c.
(C) Debited to Suspense A/c.
(D) None of the above.

(v) Which of the following terms is related to Accounts of Electricity Companies?
(A) Clear profit.
(B) Work uncertified.
(C) NPA.
(D) Claims outstanding.

Answer:

(i) — (B): Debit Branch Stock A/c , Credit Branch Debtors A/c.
(ii) — (C): Arrears of fixed cumulative dividends.
(iii) — (B): Creation of Sinking Funds.
(iv) — (A): Credited to Capital Reserve A/c.
(v) — (A): Clear profit.

(d) Match the following in Column I with the appropriate in Column II: [1x5=5]

Column I	Column II
(i) Repossess the goods **(ii) Non Performing Assets** **(iii) Intangible Assets** **(iv) Related Party Disclosures** **(v) Maximum Loss Method**	**(A) AS-10** **(B) Banking Companies** **(C) Piecemeal distribution** **(D) Hire Purchase System** **(E) AS-18** **(F) No matching statement found**

Answer:

Column I	Column II
(i) Repossess the goods **(ii)** Non Performing Assets **(iii)** Fixed Assets **(iv)** Related Party Disclosures **(v)** Maximum Loss Method	(D) Hire Purchase System (B) Banking Companies (A)AS – 10 (E) AS-18 (F) No matching statement found

2. (a) Raja makes up his annual accounts to 31st December every year. He was unable to take stock of physical inventory till 9th January 2014 on which date the physical stock at cost was valued at ₹ 75,200.

You are required to ascertain the value of stock at cost on 31st Dec. 2013, from the following information regarding the period from 1st January 2014 to 9th January 2014:

(i) Purchases of goods amounted to ₹ 25,600 of which goods worth ₹ 4,700 had been received on 28.12.2013 and goods worth ₹ 5,900 had been received on 12.1.2014.

(ii) Sales of goods amounted to ₹ 38,400 of which goods of a sale value of ₹ 3,600 had not been delivered at the time of verification and goods of a sale value of ₹ 6,000 had been delivered on 29.12.2013.

(iii) Sales return amounted to ₹ 1,800 which included a return of ₹ 720 relating to the goods sold and delivered between 1.1.2014 to 9.1.2014.

(iv) A sub-total of ₹ 12,000 on one of the stock sheets had been carried to the summary of stock sheet as ₹ 21,000.

(v) In respect of goods costing ₹ 4,000 received prior to 31st December 2013, invoices had not been received up to the date of verification of stock.

(vi) The rate of gross profit was 20% on the cost price. [6]

Answer:

Statement showing the value of Physical Stock at cost on 31st Dec, 2013

Particulars	₹	₹	₹
Value of closing stock on 9th January 2014 :			75,200
Less: Goods purchased and received between			

1.1.2014 and 9.1.2014;		25,600	
Less: Goods received on 28.12.2013	4,700		
Goods received on 12.1.2014	5,900	10,600	15,000
			60,200
Add : Cost of goods sold and delivered between 1.1.2014 and 9.1.2014		38,400	
Less: Goods undelivered	3,600		
Goods delivered on 29.12.2013	6,000	9,600	
		28,800	
Less : Gross profit (@ 20% on cost i.e. 1/6th of sales)		4,800	24,000
Less : Cost of sales returned :			84,200
Return		1,800	
Less: Sales between 1.1.2014 and 9.1.2014		720	
		1,080	
Less : Gross Profit @ 1/6 of sales		180	900
			83,300
Less: Stock sheet wrongly carried forward by (21,000 -12,000)			9,000
Value of stock as on 31.12.2013			74,300

Note: There will be no adjustment for item (V)

(b) ABC Ltd. Issue 1,00,000 equity shares of ₹ 10 each (fully paid up) in consideration for supply of a Machinery by MNP Ltd. The shares exchanged for machinery are quoted on National Stock Exchange (NSE) at ₹25 per share, at the time of transaction. In the absence of fair market value of the machinery acquired, how the value of machinery would be recorded in the books of company. [4]

Answer:

As per this statement, fixed asset acquired in exchange for shares or other securities in the enterprise should be recorded at the fair market value of the asset acquired or the fair market value of the securities issued, whichever is more clearly evident. Since, the market value of the shares exchanged for the asset is more clearly evident, the company should record the value of machinery at ₹ 25,00,000 (i.e. 1,00,000 shares x ₹ 25 per share being the market price).

Journal Entry

Date	Particulars	Dr. Amount (₹)	Cr. Amount (₹)
	Machinery A/c Dr.	25,00,000	
	To Share capital A/c		10,00,000
	To Securities Premium A/c		15,00,000
	(being machinery recorded at the fair market value of the securities issued in consideration for machinery acquired)		

(c) From the following information , as furnished by Badal Ltd. , calculate its Net cash flow from the Financing Activities for the year that ended on 31st March, 2014:

Particulars	31st March 2013 Amount	31st March 2014 Amount

	(₹)	(₹)
Equity Share Capital	**6,00,000**	**10,00,000**
Preference Share Capital	**4,00,000**	**2,00,000**
Debentures	**4,00,000**	**5,00,000**

During the year 2013-14 debentures of ₹2,00,000 were redeemed for cash and debenture interest paid was ₹60,000. Preference Dividend paid was ₹40,000 and equity dividend paid was ₹80,000. [5]

Answer:

Calculation of Net Cash flow from the financing activities of Badal Ltd. for the year that ended on 31st March 2014

Particulars	Amount (₹)	Amount(₹)
Inflows of Cash:		
Proceeds Received from issue of Equity Shares	4,00,000	
Proceeds received from issue of Debenture	3,00,000	7,00,000
Less: Outflows of Cash:		
Redemption of Preference Shares	2,00,000	
Redemption of Debentures	2,00,000	
Payment of Debentures' interest	60,000	
Payment of Preference Dividend	40,000	
Payment of Equity Dividend	80,000	5,80,000
		1,20,000

Working Notes:

A.

Debenture Account

Dr. **Cr.**

Particulars	Amount (₹)	Particulars	Amount(₹)
To, Bank- redeemed	2,00,000	By, Balance b/f	4,00,000
To, Balance c/f	5,00,000	By, Bank – New Issue (Bal. fig)	3,00,000
	7,00,000		7,00,000

B. Analysis of other Non-Current Liabilities

Liabilities	Opening Balance ₹	Closing Balance ₹	Increase/ Decrease ₹	Analysis
Equity Share Capital	6,00,000	10,00,000	(+)4,00,000	New issue of Equity Shares
Preference Share Capital	4,00,000	2,00,000	(-) 2,00,000	Redemption of Preference Shares

3. (a) Distinguish between Profit and Loss Account and Income & Expenditure Account. [4]

Answer:

Profit and Loss Account	Income & Expenditure Account

It is prepared by business undertaking.	It is prepared by non-trading organizations.
The credit balance of Profit and Loss A/c is known as "net profit" and added to opening capital.	Credit balance of Income and Expenditure A/c is known as excess of income over expenditure or surplus and added to opening capital fund.
The debit balance of this Profit and Loss A/c is known as "net loss" and deducted from opening capital.	Debit balance of this Income and Expenditure A/c is known as "excess of expenditure over income" or deficit and deducted from opening capital fund.
To check correctness of accounts trial balance is prepared before preparing this account.	To check correctness of accounts, receipts and payments account is prepared before preparing this account.

(b) Khush Raho Insurance Co. Ltd. furnishes you the following information:

(i) On 31.3.2013 it had reserve for unexpired risks to the tune of ₹80 crore. It comprised of ₹30 crore in respect of machine insurance business; ₹20 crore in respect of fire insurance business and ₹5 crore in respect of miscellaneous insurance business.

(ii) It is the practice of Khush Raho Insurance Co. Ltd. to create reserve at 100% of net premium income in respect of marine insurance policies and at 50% of net premium in respect of fire and miscellaneous insurance business.

(iii) During the year 31st March, 2014 the following business was conducted:

	Marine ₹ crores	Fire ₹ crores	Miscellaneous ₹ crores
Premia collected from:			
a. Insured (other than insurance companies) in respect of policies issued	**36**	**86**	**24**
b. Other insurance companies in respect of risks undertaken	**14**	**10**	**8**
Premia paid/payable to other insurance companies on business ceded	**13.4**	**8.6**	**14**

Khush Raho Insurance Co. Ltd. asks you to:

(i)Pass journal entries relating to "unexpired risks reserve"
(ii)Show in columnar form Unexpired Risks Reserve Account for the year ended 31st March, 2014. **[8]**

Answer:

Journal

Date	**Particulars**	**L.F**	**Debit** **₹** **Crore**	**Credit** **₹** **Crore**
2014 March.31	Marine Revenue A/c Dr. To, Unexpired Risks Reserve A/c (Excess of closing provision for unexpired risks of ₹36.6 crore over opening provision of ₹30 crore charged to		6.60	 6.60

	Marine Revenue A/c)			
March.31	Fire Revenue A/c Dr. To, Unexpired Risks Reserve A/c (Excess of closing provision for unexpired risks of ₹43.70 crore over opening provision of ₹40.00 crore charged to Fire Revenue A/c)		3.70	3.70
March.31	Unexpired Risks Revenue A/c Dr. To, Miscellaneous Revenue A/c (Excess of opening provision for unexpired risks of ₹9.00 crore over the required closing balance of ₹10 crore in the provision account credited to Miscellaneous Reserve Account.)		1.00	1.00

Working Notes:

Required closing balance in Unexpired Risks Reserve Account:
For Marine business = ₹(36+14-13.4) = ₹36.60.
For Fire business = $\frac{(86+10+8.6)}{2}$ = ₹43.70
For miscellaneous business = $\frac{(24+8-14)}{2}$ = ₹9.00

Dr. **Unexpired Risks Reserve Account** **Cr.**

Date 2013	Particulars	Marine ₹ in crore	Fire ₹ in crore	Misc. ₹ in crore	Date 2013	Particulars	Marine ₹ in crore	Fire ₹ in crore	Misc. ₹ in crore
March. 31	To, Revenue A/c	--	--	1.00		By, Balance b/d	30.00	40.00	10.00
March. 31	To, Balance c/d	36.60	43.70	9.00		By, Revenue A/c	6.60	3.70	--
		36.60	**43.70**	**10.00**			**36.60**	**43.70**	**10.00**

(c) State in brief the three fundamental accounting assumptions. **[3]**

Answer:

The three fundamental accounting assumptions are (i) going concern; (ii) consistency; and (iii) accrual.

(i) **Going Concern:** It is assumed that the concern would be continuing in operation in the foreseeable future and there would be no interim necessity of liquidation or winding up or reducing of scale of operation.

(ii) **Consistency:** The accounting policies followed are consistent from one accounting period to another.

(iii) **Accrual:** the revenues and expenses are accrued and recorded in the financial statements. There is matching of revenue against relevant costs.

4. (a) From the following information relating to Best Standard Ltd., prepare a Balance Sheet as on 31.3.2014.

Gross Profit	**25% of sales**

Gross Profit	**₹12,00,000**
Share holders equity	**₹2,00,000**
Credit sales to total sales	**80%**
Total turnover to total assets	**4 times**
Cost of sales to inventory	**10 times**
Average collection period	**5 days, assume 365 days in a year**
Long-term Debt	**?**
Current ratio	**1.5**
Current Assets	**₹6,00,000**

[9]

Answer:

(i) Sales

Gross profit = 25% of sales (given)

Gross Profit = ₹12,00,000

Hence, Total sales $= 12,00,000 \times \frac{100}{25} =$ ₹48,00,000₹

Credit sales =₹48,00,000 × 80% = ₹38,40,000.

(ii) Cost of Goods Sold = Sales – Gross Profit

= ₹48,00,000 - ₹12,00,000 = ₹36,00,000.

(iii) Closing Inventory

Cost of sales to Inventory = 10 times (given)

$$\frac{\text{Cost of sales}}{\text{Inventory}} = 10$$

$$\frac{₹36,00,000}{\text{Inventory}} = 10$$

Inventory = $\frac{₹36,00,000}{10}$ =₹3,60,000

(iv) Total Assets:

Total turnover to Total assets = 4 times (given)

$$\frac{\text{Total turnover}}{\text{Total assets}} = 4$$

$$\frac{₹48,00,000}{\text{Total assets}} = 4$$

Total assets = $\frac{₹48,00,000}{4}$ = ₹12,00,000.

(v) Current Assets :

Current ratio =1.5 (given)

$$\frac{\text{Current assets}}{\text{Current liabilities}} = 1.5$$

$$\frac{\text{Current assets}}{₹6,00,000} = 1.5$$

Current assets = ₹6,00,000 × 1.5 = ₹9,00,000.

(vi) Debtors:

Average collection period = 5 days (given)

$$\frac{\text{Debtors}}{\text{Credit sales}} \times \text{number of days in year} = 5 \text{ days}$$

$$\frac{\text{Debtors}}{`38,40,000} \times 365 = 5$$

$$\text{Debtors} = ₹38,40,000 \times \frac{5}{365} = ₹52,600 \text{ (approx.)}$$

(vii) Cash:

Current assets =₹9,00,000

Cash + Debtors + Inventory =₹9,00,000

Cash+₹52,600+₹3,60,000 =₹9,00,000

Cash+₹9,00,000 - ₹3,60,000 -₹52,600 =₹4,87,400

Best Standard Ltd.
Balance Sheet as on 31.3.2014

Equity and Liabilities	**Note**	**31.03.2014 (₹)**	**31..03.2013 (₹)**
Shareholders' funds			
Share Capital		2,00,000	
Non-current liabilities			
Long-term borrowings (balancing figure)		4,00,000	
Current Liabilities			
Trade Receivables		6,00,000	
Total		**12,00,000**	
Assets			
Non-current Assets			
Fixed Assets		3,00,000	
Current Assets			
Inventories		3,60,000	
Trade receivables - Debtors		52,600	
Cash and cash equivalent		4,87,400	
Total		**12,00,000**	

(b) State the advantages of Double Entry System of accounting.

[6]

Answer:

Advantages of Double Entry System:

(iv) Since personal and impersonal accounts are maintained under the double entry system, both the effects of the transactions are recorded.

(v) It ensures arithmetical accuracy of the books of accounts, for every debit, there is a corresponding and equal credit. This is ascertained by preparing a trial balance periodically or at the end of the financial year.
(vi) It prevents and minimizes frauds. Moreover frauds can be detected early.
(vii) Errors can be checked and rectified easily.
(viii) The balances of receivables and payables are determined easily, since the personal accounts are maintained.
(ix) The businessman can compare the financial position of the current year with that of the past year/s.
(x) The businessman can justify the standing of his business in comparison with the previous year's purchase, sales, stocks, incomes and expenses with that of the current year figures.
(xi) Helps in decision making.
(xii) The net operating results can be calculated by preparing the Trading and Profit and Loss A/C for the year ended and the financial position can be ascertained by the preparation of the Balance Sheet.
(xiii) It becomes easy for the Government to decide the tax.
(xiv) It helps the Government to decide sickness of business units and extend help accordingly.
(xv) The other stakeholders like suppliers, banks, etc take a proper decision regarding grant of credit or loans.

5. (a) The firm of Kapil and Dev has four partners and as on 31st March, 2013, its Balance Sheet stood as follows:

Balance Sheet as at 31st march, 2013

Liabilities	₹	₹	Assets	₹
Capital A/cs:			**Land**	**50,000**
F. Kapil	**2,00,000**		**Building**	**2,50,000**
S. kapil	**2,00,000**		**Office equipment**	**1,25,000**
R. Dev	**1,00,000**	**5,00,000**	**Computers**	**70,000**
Current A/cs:			**Debtors**	**4,00,000**
F. Kapil	**50,000**		**Stocks**	**3,00,000**
S. kapil	**1,50,000**		**Cash at Bank**	**75,000**
R. Dev	**1,10,000**	**3,10,000**	**Other Current assets**	**22,600**
Loan form NBFC		**5,00,000**	**Current A/c:**	
Current Liabilities		**70,000**	**B. Dev**	**87,400**
		13,80,000		**13,80,000**

The partners have been sharing profits and losses in the ratio of 4: 4: 1: 1. It has been agreed to dissolve the firm on 1.4.2013 on the basis of the following understanding:

- **The following assets are to be adjusted to the extent indicated with respect to the book values: Land—200%; Building—120%; Computers—70%; Debtors—95%; Stocks—90%.**
- **In the case of the loan, the lenders are to be paid at their insistence a prepayment premium of 1%.**
- **B.Dev is insolvent and no amount is recoverable from him. His father, R. Dev, however, agrees to bear 50% of his deficiency. The balance of the deficiency is agreed to be apportioned according to law.**

Assuming that the realization of the assets and discharge of liabilities is carried out immediately, show the Cash Account, Realization Account and the Partners' Accounts. **[8]**

Answer:

Realization Account

Dr. Particulars	Amount ₹	Amount ₹	Particulars	Amount ₹	Cr. Amount ₹
To Land A/c		50,000	By Current Liabilities A/c		70,000
To Building A/c		2,50,000	By Loan from NBFC A/c		5,00,000
To Office Equipments A/c		1,25,000	By Bank A/c :		
To Computers A/c		70,000	Land [200%]	1,00,000	
To Debtors A/c		4,00,000	Building [120%]	3,00,000	
To Stocks A/c		3,00,000	Office Equipment [100%]	1,25,000	
To Other Current Assets A/c		22,600			
To Cash A/c :			Computers [70%]	49,000	
Current Liabilities		70,000	Debtors [95%]	3,80,000	
Loan from NBFC [5,00,000 + 1% thereof]		5,05,000	Stock [90%]	2,70,000	
			Other Current Assets [100%]	22,600	12,46,600
To Capital A/cs [Profit on Realization]					
F. Kapil	9,600				
S. Kapil	9,600				
R. Dev	2,400				
B. Dev	2,400	24,000			
		18,16,600			18,16,600

Partners Capital Accounts

Dr. Particulars	F. Kapil ₹	S. Kapil ₹	R. Dev ₹	B. Dev ₹	Particulars	F. Kapil ₹	S. Kapil ₹	R. Dev ₹	Cr. B. Dev ₹
To Current A/c				87,400	By Balance b/d	2,00,000	2,00,000	1,00,000	
To B. Dev's Cap. A/c [50% of deficiency] "			42,500		By Current A/c	50,000	1,50,000	1,10,000	
To B.Dev's Cap. A/c (Contra)	17,000	17,000	8,500		By Realization A/c (Profit)	9,600	9,600	2,400	2,400
To Bank A/c [Final Payments]	2,42,600	3,42,600	1,61,400	-	By R.Dev's Cap. A/c [50% of deficiency transferred]				42,500
					By F.Kapil's Cap. A/c				17,000
					By S.Kapil's Cap. A/c				17,000
					By R.Dev's Cap. A/c [Remaining deficiency as 2:2:1]				8,500
	2,59,600	3,59,600	2,12,400	87,400		2,59,600	3,59,600	2,12,400	87,400

Cash Book (Bank Column)

Dr. Particulars	Amount ₹	Particulars	Cr. Amount ₹
To Balance b/d	75,000	By Realization A/c	5,75,000
To Realization A/c	12,46,600	By F. Kapil's Capital A/c	2,42,600
		By S. Kapil's Capital A/c	3,42,600
		By R. Dev's Capital A/c	1,61,400
	13,21,600		13,21,600

(b) Prepare Branch account in the books of the Head Office and also debtors account from the following information given below: for the year 2013.
The Unique Shoe Stores has an old branch at Kanpur. Goods are invoiced at the branch at 25% profit on cost price. The branch has been instructed to send all cash daily to the Head Office. All expenses are paid by the Head Office except petty expenses which are met by the Branch Manager.

Particulars		₹
Stock on 01.01.2013 (invoice price)		15,000
Sundry debtors on 01.01.2013		9,000
Cash in hand on 01.01.2013		400
Office furniture on 01.01.2013		1,200
Goods supplied by the Head Office (invoice price) for year		80,000
Goods returned to Head Office for year		1,000
Goods returned by debtors at the end of year		480
Debtors at the end of year		8,220
Cash sales for year		50,000
Credit sales for year		30,000
Discount allowed for year		300
Expenses paid by Head Office: for year	₹	
Rent	1,200	
Salary	2,400	
Stationery	300	3,900
Petty expenses paid by Branch Manager during year		280
Stock on 31.12.2013		14,000
Provide depreciation on furniture at 10% per year		

[5+2=7]

Answer:

In the Books of Unique Shoe Stores
Branch Account

Dr. **Cr.**

Particulars		₹	Particulars		₹
To Branch stock A/c		15,000	By Cash (remittances)		
To Branch debtors		9,000	Cash sales	50,000	
To Branch cash in hand		400	Cash from debtors	30,000	80,000
To Branch office furniture		1,200	By Branch stock		14,000
To Goods sent to branch A/c	80,000		By Branch debtors		8,220
Less: return to H.O.	1,000	79,000	By Branch furniture		1,080
To Bank:			By Stock reserve		3,000
Rent	1,200		By Goods sent to branch A/c		15,800
Salary	2,400		By Branch cash in hand		120
Stationery	300	3,900	(400-280)		
To Stock reserve		2,800			
To General P&L A/c		10,920			
		1,22,220			1,22,220

Debtors Account

Dr. **Cr.**

Particulars	₹	Particulars	₹
To Balance b/d	9,000	By Sales return A/c	480
To Credit sales A/c	30,000	By Cash A/c (b.f.)	30,000

		By Discount A/c By Balance c/d	300 8,220
	39,000		39,000

6. (a) On 01.01.2012 Satabdi purchased 3 machines from Susobhan Traders under hire purchase. The Cash Price of each machine was ₹ 60,000. Payments for each machine were to be made as ₹15,480 down and the balance by 5 annual installments of ₹10,000 each payable on 31st December every year. Interests were to be reckoned at 4% per annum.
Satabdi, who provided depreciation @ 10% p.a. on the written down value, could not pay the installment due on 31.12.2013. Susobhan Traders took possession of 2 machines and valued those at their own books after charging 15% as annual depreciation under the straight line method. On 15.01.14 it incurred ₹3,000 for repairing the repossessed machines and on 20.01.14 it sold out each of these machines at ₹50,000.
Show Satabdi Account and Re-possessed Stock Account in the books of Susobhan Traders. [10]

Answer:

Books of Susobhan Traders
Satabdi Account

Dr. **Cr.**

Date	Particulars	Amount ₹	Date	Particulars	Amount ₹
1.01.12 31.12.12	To Hire Purchase Sales A/c To Interest A/c [Note 1]	1,80,000 5,342	1.1.12 31.12.12	By Bank A/c By Bank A/c By Balance c/d	46,440 30,000 1,08,902
		1,85,342			1,85,342
1.01.13 31.12.13	To Balance b/d To Interest A/c [Note 1]	1,08,902 4,356	31.12.13	By Re-possessed Stock A/c By Balance c/d	75,505 37,753
		1,13,258			1,13,258
1.01.14	To Balance b/d	37,753			

Re-possessed Stock Account

Dr. **Cr.**

Date	Particulars	Amount ₹	Date	Particulars	Amount ₹
31.12.13	To Satabdi A/c .. Profit & Loss A/c (Profit)	75,505 8,495	31.12.13	By Balance c/d [Note 3]	84,000
		84,000			84,000
1.01.14 15.1.14 20.1.14	To Balance b/d " Bank A/c (Repairs) .. Profit & Loss A/c (Profit on Sale)	84,000 3,000 13,000	20.1.14	By Bank A/c [Sale 50,000 × 2]	1,00,000
		1,00,000			1,00,000

Working Notes:

A. Calculation of Interests & Valuation of Surrendered/Repossessed Machines

Here the Installment values are inclusive of interest because the Cash Price for each machine is ₹ 60,000 whereas total payments for the same = ₹15,480 + ₹10,000 × 5 = ₹ 65,480

Particulars			₹
1. 01.01.2012	Cash Price of 3 Machines [3 × ₹ 60,000]		1,80,000
Less :	Down Payments [3 × ₹ 15,480]		46,440
			1,33,560
31.12.2012	Add : Interest at 4% of ₹1,33,560		5,342
			1,38,902
	Less : Installment [3x ₹ 10,000]		30,000
			1,08,902
31.12.2013	Add : Interest @ 4% of ₹ 1,08,902		4,356
		Total Due for 3 Machines	1,13,258
∴ Amount due for 2 Machines = $\frac{2}{3}$ of ₹1,13,258 = ₹**75,505**			
2. **Loss on Surrender**			
W. D. V of 3 Machines on 31.12.2013 = ₹1,62,000 – ₹16,200 = ₹**1,45,800**			
			₹
W.D. Value of 2 machines Surrendered $\left[\frac{2}{3} \text{of } 1,45,800\right]$			97,200
Less: Value [as due to vendor]			75,505
Loss on Surender			21,695
3. **Valuation of Repossessed Stock** [as per books of Susobhan Traders]			
			₹
	Original cost = 2 × 60,000		1,20,000
Less:	Depreciation @ 15% p.a. for 2 years		36,000
			84,000

(b) X Ltd has three departments A, B and C. From the particulars given below, compute the Departmental results.

Particulars	A(₹)	B(₹)	C(₹)
Opening Stock	**24,000**	**36,000**	**12,000**
Purchases	**1,46,000**	**1,24,000**	**48,000**
Actual Sales	**1,72,500**	**1,59,400**	**74,600**
Gross Profit on Normal selling price	**20%**	**25%**	$33\frac{1}{3}\%$

During the year certain items were sold at discount and these discounts were reflected in the value of sales shown above. The items sold at discount were:

Particulars	A(₹)	B(₹)	C(₹)
Sales at Normal Price	**10,000**	**3,000**	**1,000**
Purchases	**7,500**	**2,400**	**600**

[5]

Answer:

Calculation of Departmental Results (Actual Gross Profit)

Particulars	A(₹)	B(₹)	C(₹)
Actual sales	1,72,500	1,59,400	74,600
Add back: Discount (Normal price – Actual Price)	2,500	600	400
Normal Sales	1,75,000	1,60,000	75,000
Gross profit % on Normal sales	20%	25%	$33\frac{1}{3}\%$
Normal Gross Profit	35,000	40,000	25,000
Less: Discount	(2,500)	(600)	(400)
Actual Gross Profit	32,500	39,600	24,600

7. (a) Tilton Ltd. furnishes the following Balance Sheet as at 31st March:

Particulars	Note No.	Current Year (₹)	Previous Year (₹)
Equities and Liabilities			
Shareholders' Funds			
Share Capital:			
2,50,000 Equity Shares of ₹10 each fully paid up		**25,00,000**	
2,000 12% Preference Shares of ₹100 each (Issued 2 months back for the purpose of Buyback)		**2,00,000**	
Reserves and Surplus			
Capital Reserve		**10,00,000**	
Revenue Reserve		**30,00,000**	
Securities Premium		**22,00,000**	
Profit and Loss A/c		**35,00,000**	
Current Liabilities		**14,00,000**	
Total		**1,38,00,000**	
Assets			
Non-current Assets			
Fixed Assets		**93,00,000**	
Non-current Investments		**30,00,000**	
Current Assets		**15,00,000**	
Total		**1,38,00,000**	

The company passed resolution to buyback 20% of its Equity Shares Capital at ₹50 per share. For this purpose, it sold all of its Investments for ₹21,50,000. You are required to pass necessary Journal Entries. [9]

Answer:

Determination of Maximum Number of shares for buyback:

Details	Rule – 1: Percentage	Rule – 2: Cash Available	Rule – 3:

	of Shares Bought		Debt-Equity Ratio
Maximum Buyback	25% of no. of shares outstanding (if special resolution is passed)	$[25\% \times \frac{(\text{Paidup Capital + Free Reserve + Securities Premium})}{\text{Buyback Price}}]$	Not Applicable (No Debt)
Result	25% of 2,50,000 = 62,500 shares	$[25\% \times \frac{(25,00,000 + 30,00,000 + 22,00,000 + 35,00,000)}{50}] =$ 56,000 shares	—

Least of the above = Maximum Permissible Buyback = 56,000 shares.
The Offer buyback of 50,000 Equity Shares (20% × 2,50,000) is within the above limits, and hence permissible.

Journal Entries
in the books of Tilton Ltd.

(₹ '000)

	Particulars	Dr. (₹)	Cr.(₹)
	Bank A/c Dr. Profit and Loss A/c Dr. To, Investments A/c (Being Sale of investments, loss thereon debited to Profit and Loss Account)	21,50 8,50	 30,00
	Equity Share Capital A/c (2,500 × 25%) Dr. Premium on Buyback A/c Dr. To, Equity Share Capital A/c (50,000 shares × ₹50) (Being 50,000 Equity Shares bought back at ₹50 per share)	5,00 20,00	 25,00
	Securities Premium A/c Dr. To, Premium on Buyback A/c (Being Premium on Buyback written off/provided out of Securities Premium)	20,00	 20,00
	Revenue Reserve A/c Dr. To, Capital Redemption Reserve A/c (Being amount transferred to capital Redemption Reserve out of Revenue Reserves, towards Nominal Value of Equity Shares bought back Less Nominal Value of Preference Shares issued two months back for the purpose of buyback)	3,00	 3,00
	Equity Shareholders A/c Dr. To, Bank A/c (Being payment made to Equity Shareholders)	25,00	 25,00

Notes:

A. For Redemption of preference shares, transfer to Capital Redemption Reserve can be only from Divisible Profits. Securities Premium cannot be used for the same. However, in respect of Buyback, Securities Premium can also be utilized for transfer to Capital Redemption Reserve. In the above situation, only Revenue Reserves have been utilised for the purpose of creating Capital redemption Reserve for Buyback.

B. Since the objective of transfer to CRR is to retain the Equity Block of Balance Sheet intact, the transfer to CRR will be net of the amount of Preference Share Capital Issue specially for the purpose of Buyback.

(b) On 25th September, 2013, Mujhko Pehchano Advertising Ltd. obtained advertisement rights to World Cup Hockey Tournament to be held in Dec, 2013 for ₹520 lakhs.
They furnish the following information:
- **The company obtained the advertisements for 70% of available time for ₹700 lakhs by 30th September, 2013.**
- **For the balance time they got bookings in October, 2013 for ₹240 lakhs.**
- **All the advertisers paid the full amount at the time of booking the advertisements.**
- **40% of the advertisements appeared before the public in Nov. 2013 and balance 60% appeared in the month of December, 2013.**

You are required to calculate the amount of profit/loss to be recognized for the month November and December, 2013 as per Accounting Standard-9. [6]

Answer:

As per AS 9 in a transaction involving the rendering of services, performance should be measured either under the completed service contract method or under the proportionate completion method, whichever relates the revenue to the work accomplished. Further, appendix to AS 9 states that revenue from advertising should be recognized when the service is completed. The service as regards advertisement is deemed to be completed when the related advertisement appears before the public.

In the given problem, 40% of the advertisement appeared before the public in November, and balance 60% in December.

Calculation of total profit

	₹ in lakhs
Advertisement for 70% of available time obtained by 30th September, 2013	700
Advertisement for 30% of available time obtained in by October, 2013	240
Total	940
Less: Cost of advertisement rights	(520)
Profit	420

The profit amounting ₹420 lakhs should be apportioned in the ratio of 40:60 for the months of November and December, 2013. Thus, the company should recognise ₹168 lakhs (i.e. ₹ 420 lakhs × 40%) in November, 2013 and rest ₹252 lakhs (i.e. ₹420 lakhs × 60%) in December, 2013.

8. Write short notes on any three: [3×5=15]

(a) Partial Repossession;
(b) Factors on which Depreciation Depends;
(c) Accounting convention of consistency;
(d) Rebate on Bills Discounted;
(e) Objectives of Financial Statements.

Answer:

(a) Partial Repossession - When seller takes possession of only part of the total asset sold to buyer.

In this case accounting entries in the books of both the parties are similar to those done in the first case.

The additional precautions to be taken are as follows:

(i) Both buyer and seller do not close seller's and buyer's account in their respective books. The entry is passed with the agreed value of the asset which is taken away by the seller. The basis for finding out the value of assets taken away is given in the question.
(ii) The buyer finds out the value of asset still left with him using the normal rate of depreciation. He keeps the asset account open. This account shows the balance of that asset which is left to him by the seller.
(iii) After crediting the asset account (in buyer's books) with the value of asset taken away by the seller (with such value as agreed upon) and after keeping the balance of the asset left [normal value as calculated in (ii) above], the difference shown by the asset account represents either profit or loss on default. This difference is transferred to profit and loss account.

(b) Factors on which Depreciation Depends:

Following are the factors on which Depreciation Depends:

(i) Historical (original) cost: Which includes money spent for acquisition, installation, addition and improvement of a fixed asset. Cost of the asset, wages paid for installation. transportation costs, legal expenses for registration of lease agreement etc. are included. Therefore, historical cost refers to all expenses incurred before an asset is brought into use.

(ii) Useful life of the asset: It is the estimated period over which the utility of an asset will be enjoyed. It depends upon - legal or contractual provisions regarding lease, etc.; level of use of the asset; degree of maintenance and technological developments. Useful life is shorter than the physical life of an asset.

(iii) Estimated residual value: It is the value expected to be realised after complete commercial utilization of a fixed asset.

(iv) Other Relevant Factors: Some other relevant factors may be considered for deciding the amount to be charged as depreciation. These are — Replacement cost that is the Cost that would be incurred if the old asset has to be replaced by a new asset, provisions of the Companies Act, Income Tax Act regarding depreciation, costs of probable additions, alterations or improvements of the existing asset.

(c) In order to enable the management to draw important conclusions regarding the working of a company over a number it is essential that accounting practices and methods remain unchanged from one accounting period to another. According to AS-1 consistency is a fundamental assumption and it is assumed that accounting policies are consistent from one period to another. Where this assumption is not followed, the fact should be disclosed with proper reasons.

Kohler has talked about three types of consistencies:

(i) Vertical consistency- consistency maintained within the interrelated financial statements of the same date.

(ii) Horizontal consistency- this enables the comparison of performance of the organization in one year with its performance of previous/ next year.

(iii) Third dimensional consistency- Performance of one organization can be compared with that of another organization in the same industry.

(d) Rebate on Bills Discounted:

At the time of discounting the bill total among of discount (difference between face value and discounted amount) is credited to interest and discounted by a bank. Discount represents the interest on bill value for the unexpired period of the bill. It may sometime happen that on the closing day of the accounting year, the bill in question has not matured. At the time of preparing final accounts, the interest relating to next accounting period must be carried forward by passing the following entry:

Interest and Discount A/c Dr.

To Rebate on Bills Discounted A/c.

(e) Objectives of Financial Statements

Financial statements may be used by users for different purposes:

- Owners and managers require financial statements to make important business decisions that affect its continued operations. Financial analysis is then performed on these statements to provide management with a more detailed understanding of the figures. These statements are also used as part of management's annual report to the stockholders.
- Employees also need these reports in making collective bargaining agreements (CSA) with the management, in the case of labor unions or for individuals in discussing their compensation, promotion and rankings.
- Prospective investors make use of financial statements to assess the viability of investing in a business. Financial analyses are often used by investors and are prepared by professionals (financial analysts), thus providing them with the basis for making investment decisions.
- Financial institutions (banks and other lending companies) use them to decide whether to grant a company with fresh working capital or extend debt securities (such as a long-term bank loan or debentures) to finance expansion and other significant expenditures.
- Government entities (tax authorities) need financial statements to ascertain the propriety and accuracy of taxes and other duties declared and paid by a company.
- Vendors who extend credit to a business require financial statements to assess the creditworthiness of the business.
- Media and the general public are also interested in financial statements for a variety of reasons.