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 x 10=20]

(i) An industry borrowed ₹40,00,000 for purchase of machinery on 1.6.2013. Interest on loan is 9% per annum. The machinery was put to use from 01.01.2014. What is the amount to be charged as borrowing cost for the year ended 31.3.2014 as per AS 16.

Answer:

Particulars	₹
(a) Interest upto 31.3.2014 (40,00,000 x 9% x 10/12 months)	3,00,000
(b) Less: interest relating to pre-operative period to be capitalized [3,00,000 x 7/10]	2,10,000
Amount to be charged to P & L A/c [3,00,000 x 3/10]	90,000

(ii) During a year, Subscription received was ₹ 42,000. It includes ₹ 1,600 for last year and ₹ 600 for next year. Also ₹ 3,000 has still to be received for current year. What is the amount of Subscription to be credited to Income and Expenditure Account?

Answer:

Subscription Account

Dr. **Cr.**

Particulars	₹	Particulars	₹
To Balance b/d (Opg Bal of Subs. Rec'ble)	1,600	By Balance b/d (Opg Bal of Subs. Recd in Adv.)	Nil
To Income and Expenditure A/c – Subs. Income recognized during the year (balancing figure)	42,800	By Cash / Bank – Subs. Received during the year	42,000
To Balance c/d (Clg Bal of Subs. Recd in Adv.)	600	By Balance c/d (Clg Bal of Subs. Rec'ble)	3,000
Total	45,000	Total	45,000

(iii) Kapil Ltd. acquired 2,000 Equity Shares of Kumar Ltd. on cum-right basis at ₹ 75 per Share. Subsequently, Kumar Ltd. made a Rights issue of 2 : 1 at ₹ 60 per Share, which was subscribed for by Kapil Ltd. Calculate cost of total investments at the year end.

Answer:

Cost of Original Holding = 2,000 Shares x ₹ 75 Add: Cost of Rights Shares Subscribed = 1,000 Shares x ₹ 60	₹ 1,50,000 ₹ 60,000
Total Cost of Investment at year-end (3,000 Shares)	₹ 2,10,000

(iv) A, B and C are Partners sharing Profits and Losses in the ratio 3:2:1. B retired from the Firm. Partners A and C decided to take his share in 3:1 ratio. What is the New Profit Sharing Ratio?

Answer:

Computation of New Profit (or Loss) Sharing Ratio (PSR) of partners A and C

Particulars	A	B	C	Ratio
1. Old Ratio	$\frac{3}{6}$	$\frac{2}{6}$	$\frac{1}{6}$	3:2:1
2. Share of B apportioned between A and C in 3:1 ratio	$\frac{1}{3} \times \frac{3}{4} = \frac{3}{12}$	$-\frac{2}{6}$	$\frac{1}{3} \times \frac{1}{4} = \frac{1}{12}$	3:1
3. New PSR after B's Retirement (1+2)	$\frac{3}{6}+\frac{3}{12}=\frac{9}{12}$		$\frac{1}{6}+\frac{1}{12}=\frac{3}{12}$	**3:1**

(v) Hari Ltd maintains Self-Balancing Ledgers preparing Control Accounts at the end of each calendar month. On 3rd January, the accountant of the company located the following errors in the books of account –

- **The Sales Book of previous month, i.e., December, was undercast by ₹ 1,000.**
- **Goods invoiced at ₹ 15,600 were returned to Supplier, M/s. Mega Ltd but no entry was made in the books for this Return made on 28th December.**

Pass necessary Journal Entries.

Answer:

Journal Entries

Particulars		In which Ledger?	Dr. (₹)	Cr.(₹)
1.(a) Suspense A/c	Dr.	In Sales Ledger	1,000	
To Sales A/c		In Sales Ledger		1,000
(b) Sales Ledger Adjustment A/c	Dr.	In Sales Ledger	1,000	
To General Ledger Adjustment A/c		In Sales Ledger		1,000
2.(a) Mani Ltd. A/c	Dr.	In Sales Ledger	15,600	
To General Ledger Adjustment A/c		In Sales Ledger		15,600
(b) Purchase Ledger Adjustment A/c	Dr.	In Sales Ledger	15,600	
To Purchase Returns A/c		In Sales Ledger		15,600

(vi) Goods costing ₹ 6,30,000 were sent out to consignee at a profit of 20 percent on invoice price. Consignee sold 2/3rd goods for ₹ 6,00,000. Consignee was entitled to an ordinary commission of 3 percent on sales at invoice price and over-riding commission of 20 percent of any surplus realized.
Compute the Stock Reserve on Closing Stock.

Answer:

Closing Stock × $₹6,30,000 \times \frac{1}{3} = ₹2,10,000.$

Stock Reserve = $₹2,10,000 \times \frac{20}{100} = ₹42,000.$

(vii) Goods are transferred from Department P to Department Q at a price so as to include a profit of 25% on cost. If the value of closing stock of Department Q is ₹ 20,000, then determine the amount of stock reserve on closing stock.

Answer:

Stock Reserve on Closing Stock = $₹20,000 \times \frac{25\%}{125\%} = ₹4,000.$

(viii) Amrit Ltd. has signed at 31st Dec, the Balance Sheet date, a contract where the Total revenue is estimated at ₹30 Crores and Total Cost is estimated at ₹40 Crores. No work began on the contract. Is the Contractor required to give any accounting effect for the year ended 31st December?

Answer:

There is an Expected Loss of ₹10 Crores i.e. ₹(40-30). Such loss should be recognised in the Profit and Loss Statement as per AS-7, even though work has not commenced.

(ix) Accurate Insurance Company Ltd. received ₹ 2,36,000 as Premium on New Policies and ₹48,000 as Renewal Premium. The Company received ₹36,000 towards Re- insurance Accepted and paid ₹28,000 towards Re-Insurance Ceded. How much will be credited to Revenue Account towards Premium?

Answer:

Particulars	Amount (₹)
Premium on Direct Business (First Year Premium 2,36,000 + Renewal Premium 48,000)	2,84,000
Add: Premium on Re-Insurance Accepted	36,000
Less: Premium on Re-Insurance Ceded	(28,000)
Amount to be credited to Revenue A/c towards Premium	2,92,000

(x) Calculate the interest income to be recognised for X Bank Ltd. for the year ended 31.03.2013 from the following information: **(₹ in Crores)**

Interest	Total Interest collected	Earned but not collected	
		On PA	On NPA
Interest on Cash Credit	**2,000**	**800**	**840**
Interest on Overdraft	**600**	**200**	**700**
Interest on Term Loan	**2,000**	**80**	**1,000**

Answer:

		(₹ in Crores)
Interest on Cash Credit	(2,000 + 800)	= 2,800
Interest on Overdraft	(600 + 200)	= 800
Interest on Term Loan	(2,000 + 80)	= 2,080
Interest income to be recognised		5,680

2. (Answer any two)

(a) There was a difference in Trial Balance of Shri Viman Sen, a trader, on 31st December, 2013 and the difference in books was carried to a Suspense Account and the books were closed. Subsequently on going through the books, the following errors were located:

(i) ₹ 2,296 paid for Repairs to Motor Car was debited to Motor Car Account as ₹ 696.
(ii) ₹ 400 being Purchase Returns posted to the debit of Purchases Account.
(iii) While carrying forward total of one page in Sumit Basu's Account, the amount of ₹ 1,000 was written on the credit side instead of the debit side.
(iv) A cheque of ₹ 6,100 received from Sankari Das (after allowing her a discount of ₹ 92) was endorsed to Pranab Garg in full settlement of ₹ 7,000. The cheque was finally dishonoured but no entries were passed in the books.

Give the Journal entries to rectify the above and prepare the Suspense Account. [2+2=4]

Answer :

Books of Viman Sen
Journal

Date	Particulars	L.F.	Dr. Amount (₹)	Cr. Amount (₹)
	(i) Profit & Loss Adjustment A/c (Repairs) Dr. To Motor Car A/c To Suspense A/c [Repairs to Motor Car ₹ 2,296 wrongly debited to Motor Car A/c as ₹696, now rectified]		2,296	 696 1,600
	(ii) Suspense A/c Dr. To P&L A/c Adjustment A/c (Purchase ₹ 400 and Purchase Returns ₹ 400) [Purchase Returns posted to the debit of Purchase A/c, now rectified]		800	 800
	(iii) Sundry Debtors A/c Dr. To Suspense A/c [Page total of one Debtor A/c written on the side instead of in the debit side, now rectified]		2,000	 2,000
	(iv) Sankari Das A/c Dr. *P/L Adjustment A/c (Disc. Recd. A/c Dr. To Pranab Garg A/c To P/L Adjustment A/c (Disc. Allowed) [Endorsed cheque dishonoured, now recorded]		6,192 900	 7,000 92

Notes:

* It is assumed that discount allowed and received at the time of endorsements are being disallowed/ cancelled.

** The entries have been made assuming that the Final Accounts have already been prepared.

Suspense Account

Dr. **Cr.**

Particulars	₹	Particulars	₹
To P/L Adjustment A/c (Purchase)	400	By P/L Adjustment A/c (Repairs)	1,600
To P/L Adjustment A/c (Purchase Return)	400	By Sundry Debtors A/c	2,000
To Difference in Books	2,800		
	3,600		3,600

(b) Mr. Banerjee request you to Amended Cash Book for January 2013, as his cash clerk reported a figure of ₹23,030 (credit) as on 31.1.2013. Scrutiny revealed the following discrepancies:

- **Cheques issued and deposited by the cash clerk in January 2013, were ₹30,000 and ₹14,000 respectively. However, against the above, the Bank had paid out and debited cheques worth ₹18,000 only and cleared and credited cheques worth ₹8,000 only, by 31.1.2013.**
- **A customer had paid in ₹12,800 directly into Mr. Banerjee's Bank account, the effect which was not recorded in the Cash Book.**
- **Bank commission of ₹90 charged was recorded in the Pass Book.**
- **Total cash withdrawals of ₹6,000 by self and bearer cheques for office use, were recorded erroneously as ₹10,000 in the Cash Book. [4]**

Answer:

Cash Book (Bank Column only)

Dr. **Cr.**

Date	Particulars	Amount(₹)	Date	Particulars	Amount(₹)
	To, Cheque Received	12,800		By, Balance b/d	23,030
	To, Error [Withdrawal shown excess for ₹4,000 I.e. (₹10,000-₹6,000)]	4,000	?	By, Bank Commission	90
	To, Balance c/d	6,320			
		23,120			23,120

(c) List the items that are not considered to be inventory as per AS 2 though appears to be inventory in common parlance. [4]

Answer:

AS-2 excludes the following though appears to be inventory in common parlance:

(a) Work-in-progress in construction contract and directly related service contract (ref: AS-7), inventories not forming part of construction work-in-progress will attract AS-2;

(b) Work-in-progress arising in the ordinary course of business of service providers;

(c) Shares, debentures and other financial instruments held as stock-in-trade (ref: AS-13 as Current Investments);

(d) Producer's inventories like livestock, agricultural and forest product, mineral oil/gasses as measured at net realizable value as per trade practices at certain stage of production.

3. (Answer any two)

(a) (i) Mr. P , purchased a machinery on hire purchase basis from Mr. Q on the following terms:

- **Cash down payment - 33⅓%;**
- **Three half-yearly instalments of ₹8,200,₹7,440 and ₹6,300, the first to commence at the end of 6 months from the date of cash down payment;**
- **Interest to be charged by the vendor 10% p.a. calculated on half yearly rates.**

Compute the Cash Price of the Machinery. [4]

Answer:

Computation of Cash Price and Periodic Interest:

A Instalment Number	B Closing Balance after the Payment of Instalment	C Instalment Amount	D=B+C Closing Balance before the payment of Instalment	E = D×R/(100+R) Interest D×5/105	F=D-E Opening Balance
3rd	Nil	6,300	6,300	300	6,000
2nd	6,000	7,440	13,440	640	12,800

Ast	12,800	8,200	21,000	1,000	20,000

Let the **Cash Price** **= X**

X =₹20,000 + 33⅓% of X

$66\,{}^{2}/_{3}\%$ of X =₹20,000

X =₹30,000.

(ii) Calculate the invoice price of the Goods sent to branch and the profit included therein in each of the following alternative cases:

Case – 1 : Goods sent to branch (at cost) ₹ 1,20,000. Goods are invoiced to the Branch at cost plus 25%.
Case – 2 : Goods sent to Branch (at cost) ₹ 1,20,000. Goods are invoiced to the branch to give a gross margin of 20% on sale price.

[2+2=4]

Answer:

Case	Invoice Price = Cost + Profit	Profit (loading) = Total Invoice Price $\times \frac{\text{Profit}}{\text{Invoice Price}}$
1	₹ 1,20,000 + 25% of ₹ 1,20,000 = ₹ 1,50,000	₹ 1,50,000 x 25/125 = ₹ 30,000
2	If Sale Price = ₹ 100, Profit = ₹ 20 and Cost ₹ 80 Thus, ₹ 1,20,000 x 100/80 = ₹ 1,50,000	₹ 1,50,000 x 20/100 = ₹ 30,000

(iii) The following data has been abstracted from the annual accounts a Company-

Particulars	₹ in lakhs	Particulars	₹ in lakhs
Share Capital: 40,000 Equity Shares of ₹10 each	**400**	**Profit before Tax**	**280**
General Reserve	**300**	**Provision for Tax**	**168**
Investment Allowance Reserve	**100**	**Proposed Dividend**	**20**
15% Long term loan.	**600**		

Calculate the following ratios – Return on Capital Employed (ROCE). **[1+1+1+1=4]**

Answer :

Computation of ROCE

Particulars	₹ in lakhs
Profit Before Tax	280
Add : Interest on Long Term Loan at 15%	90
Profit Before Tax and Interest (PBIT)	370

Computation of Net Worth on Net Worth and Capital Employed **(Amount in ₹ lakhs)**

a. Net Worth = Share Cap. + Gen. Reserve +Invt. Allowance Reserve = 400+300+100	800
b. Capital Employed = Net Worth + Long term Borrowings = 800 + 600	1,400

Computation of Ratios

	Particulars		%
Return on Capital Employed	= (PBIT ÷ Capital Employed.)	= (370÷ 1,400) ÷ 100	26.43%

(b) From the following information of a club, prepare Income & Expenditure Account for the year ended 31st March, 2014 and a Balance Sheet as on that date:

Cash Book

Dr. **Cr.**

Receipts	₹	Payments	₹
To Member's Subscription	5,000	By Upkeep of Pavilion	2,000
To Member's Admission Fees	300	By Expenses regarding Tournaments	700
To Sale of Old Balls, Bats etc.	50	By Rates and Insurance	200
To Hire of Ground	300	By Telephones	50
To Subscription for Tournament	1,000	By Printing & Stationery	100
To Drawn from Bank	4,000	By General Charges	50
To Donations	10,000	By Secretary's Honorarium	170
		By Grass Seeds	20
		By Bats, Balls, etc.	710
		By Deposit in Bank	16,650
	20,650		20,650

Assets on 01.04.2013:	₹
Cash at bank	3,000
Stock of Balls and Bats, etc.,	1,500
Printing & Stationery (Stock)	200
Subscription due	500

Surplus on account of Tournament and Donations should be kept in reserve for a permanent pavilion. Subscriptions due on 31st March, 2014 ₹750. Write-off 50 per cent of Bats, Balls Account and 25 per cent of Printing & Stationery Account . Treat admission fees as of revenue nature. [12]

Answer:

Income & Expenditure Account of the club
for the year ended 31st March, 2014

Dr. **Cr.**

Expenditure		₹	Income		₹
To Upkeep of Pavilion		2,000	By Subscription	5,000	
To Rates & Insurance		200	Less: for previous year	500	
To Telephones		50		4,500	
To General Charges		50	Add: Outstanding	750	5,250
To Secretary's Honorarium		170	By Admission Fees		300
To Grass Seeds		20	By Sale of old Balls, Bats, etc.,		50
To Bats, Balls, etc.,	710		By Hire of Ground		300
Add: Opening Stock	1,500				
	2,210				

Less: 50% Depreciation 1,105 To Printing & Stationery (25% of 300) To Surplus	1,105 75 2,230		
	5,900		5,900

Balance Sheet as at 31.03.2014

Liabilities	₹	Assets	₹
Reserve of Permanent Pavilion	10,300	Cash at Bank	15,650
Capital Fund 5,200		Stock on Bats, Balls, etc.	1,105
Add: Surplus 2,230	7,430	Printing & Stationery	225
		Subscription due	750
	17,730		17,730

Working Notes:

A. Balance Sheet as at 01.04.2013

Liabilities	₹	Assets	₹
Capital Fund (Balancing Figure)	5,200	Cash at Bank	3,000
		Stock of Balls & Bats	1,500
		Printing & Stationery	200
		Subscription due	500
	5,200		5,200

B. Calculation of Closing Balance of Reserve for Permanent Pavilion

		₹
A	Donations	10,000
B	Add: Subscription for Tournament	1,000
C	Less: Expenditure regarding Tournament	700
D	Closing Balance of Reservation for Permanent Pavilion [A+B-C]	10,300

C. Calculation of Closing Balance of Cash at Bank

		₹
A	Opening Balance	3,000
B	Add: Cash deposited	16,650
C	Less: Cash withdrawn	4,000
D	Closing Bank Balance [A+B-C]	15,650

(c) (i) A and B were carrying on the business as equal partners. It was agreed that A should retire from the firm on 31st March, 2013 and that his son H should join B from 1st April 2013 and should be entitled to one-third of the profits of the partnership.

The balances in the firm's books on 31st March, 2013 were as follows:

Liabilities	₹	Assets	₹
A's Capital Account	**34,000**	**Cash at Bank**	**11,000**
B's Capital Account	**28,200**	**Sundry Debtors**	**14,100**
Sundry Liabilities	**7,800**	**Furniture**	**14,200**
		Building	**20,700**
		Goodwill	**10,000**
	70,000		**70,000**

On 31st March, 2013, Goodwill was valued at ₹ 22,000 and Building at ₹ 24,000. It was also agreed that enough money should be introduced to enable A to be paid out and leave ₹10,000 cash by way of working capital. B and H were to provide such sum as would make their capitals proportion to their shares of profits. A agreed to make a friendly

personal loan to H by transfer from his Capital Account of half the amount which H had to provide.
B and H paid in the cash due from them on 7.4.2013 and the amount due to A was paid out on the same day.
Set out Journal Entries with full narration to record the above transactions in the books of the partnership. [2+2+3=7]

Answer:

Books of firm
Journal Entries

Date	Particulars	L.F.	Dr. (₹)	Cr.(₹)
31.1.01	Goodwill A/c Dr.		12,000	
	Building A/c Dr.		3,300	
	To A's Capital A/c			7,650
	To B's Capital A/c			7,650
	[Being profit on revaluation distributed between existing partners as 1 : 1]			
	A's Capital A/c Dr.		12,750	
	To H's Capital A/c			12,750
	[Being transfer of half of H's Capital Contribution from A's Capital]			
7.4.01	Bank A/c Dr.		27,900	
	To B's Capital A/c			15,150
	To H's Capital A/c			12,750
	[Being, Sufficient Cash introduced as Capitals]			
	A's Capital A/c Dr.		28,900	
	To Bank A/c			28,900
	[Being, the dues to the retiring partner paid off]			

Working Notes:

A. Estimated financial position on 7.4.2013 (after the transactions are over)

	₹	₹
Total Assets:		
Cash at Bank	10,000	
Sundry Debtors	14,100	
Furniture	14,200	
Buildings	24,000	
Goodwill	22,000	84,300
Less: External Liabilities : Sundry Creditors		7,800
Capitals of B & H		76,500

$\therefore$ B's Capital would be $\frac{2}{3}$ of 76,500 = ₹ 51,000 and H's Capital would be $\frac{1}{3}$ of ₹ 76,500
= ₹ 25,500

B. Adjustment related to Capital Accounts

	A ₹	B ₹	H ₹
(a) Existing Capitals			
Balances as per last Balance Sheet	34,000	28,200	---
Profit on revaluation [24,000 – 20,700]+[22,000 – 10,000] as 1 : 1	7,650	7,650	
Transfer between A and H [$\frac{1}{2}$ of 25,500]			

	-12750		+12,750
(b) Maintainable Capital	28,900 Nil	35,850 51,000	12,750 25,500
Amount Paid off or brought in	28,900 (paid)	15,150 (brought in)	12,750 (brought in)

(ii) Book value of old assets exchanged ₹16,000
Additional cash given for exchange of asset ₹10,000
Determine the cost of new asset acquired and show the accounting treatment in this regard in the following cases:

- **If no other information is given**
- **Fair market value of old asset exchanged is ₹36,000**
- **Fair market value of new asset acquired in exchange of old asset is ₹50,000.**

[1+2+2=5]

Answer:

When the market value of asset given up/ acquired is not clearly evident:

Journal

Particulars	Dr. (₹)	Cr.(₹)
New Asset A/c Dr. To, Bank A/c To, Old Asset A/c (Being the cost of asset acquired is recorded at the book value of asset given up and adjusted for payment.)	26,000	 10,000 16,000

When the market value of the asset given up is more clearly evident:

Journal

Particulars	Dr. (₹)	Cr.(₹)
New Asset A/c Dr. To, Bank A/c To, Old Asset A/c (Being the cost of asset acquired is recorded at the fair market value of the asset given up and adjusted for payment.)	46,000	 10,000 36,000
Old Asset A/c Dr. To, Profit and Loss A/c (Being the excess of fair market value over book value is transferred to P&L A/c.)	20,000	 20,000

When the market value of the asset acquired is more clearly evident:

Journal

Particulars	Dr. (₹)	Cr.(₹)
New Asset A/c Dr. To, Bank A/c To, Old Asset A/c (Being the cost of asset acquired is recorded at the fair	50,000	 10,000 40,000

market value)		
Old Asset A/c Dr. To, Profit & Loss A/c (Being credit balance in Old Asset A/c transferred to P&L A/c)	24,000	 24,000

4. (Answer any two)

(a) The net total balances extracted from purchases ledger of Mr. M on March, 2013 amounted to ₹ 12,560 which did not agree with balance on the Purchase Ledger Control Account.

The audit revealed the following errors which were appropriately adjusted to make the books balances:

- **A debit balance of ₹40 in the Purchase Ledger and been recorded as a credit balance.**
- **Mr. N had been debited for goods returned to him ₹90 but no other entry was made.**
- **The Purchase Day Book had been overcast by ₹100.**
- **Credit balance on the Purchase Ledger amounting to ₹480 and the debit balance amounting to ₹20 had been omitted from the list of the balances.**

You are to prepare (a) a statement reconciling the original net balance extracted from the Purchase ledger with the corrected balance on the Purchase Ledger Control Account and (b) the Purchase Ledger Control Account showing the balance just before the correction of the errors and the adjustments made thereon.

[2+2=4]

Answer :

Statement for reconciling the Purchase Ledger Balance with the Balance of Purchase Ledger Control Account on 31.03.2013

	₹	₹
Original Net Total of Purchase Ledger Balance Extracted		12,560
Add: Credit balance Omitted		480
		13,040
Less: (a) Debit Balance Omitted	20	
(b)Debit Balance in Purchase Ledger recorded as a Credit Balance	80	100
Amended Balance on Purchase Ledger Control A/c		12,940

In General Ledger
Purchase Ledger Control Account

Dr. **Cr.**

Date	Particulars	Amount ₹	Date	Particulars	Amount ₹
31.3.2013	To Purchase Returns	90	31.3.2013	By Balance b/f	13,130
	" Purchase			(Balancing Figure)	
	(Over casting Set Off)	100			
	" Balance c/f	12,940			
		13,130			13,130

(b) Mention any four advantages of Self-Balancing System. [4]

Answer:

The advantages of Self-Balancing system are:

(a) If ledgers are maintained under self-balancing system it becomes very easy to locate errors.
(b) This system helps to prepare interim account and draft final accounts as a complete trial balance can be prepared before the obstruction of individual personal ledger balances.
(c) This system is particularly useful (i) where there are a large number of customers or suppliers and (ii) where it is desired to prepare periodical accounts.
(d) Committing fraud is minimized as different ledgers are prepared by different clauses and internal check system can also be strengthened as it becomes possible to check the accuracy of each ledger independently.

(c) From the following particulars prepare the General Ledger Adjustment Account as it would appear in the Consignment Ledger of Delhi Enterprises:

Date	Particulars	Bombay ₹	Calcutta ₹	Kanpur ₹	Madras ₹	Lucknow ₹	Patna ₹
01.01.2013	**Balance of Consignment Stock**	**60,000**	**60,000**	**50,000**	**70,000**	**20,000**	**20,000**
31.12.2013	**Goods Sent on Consignment**	**2,00,000**	**3,00,000**	**4,00,000**	**2,00,000**	**1,00,000**	**1,50,000**
	Expenses	**10,000**	**20,000**	**10,000**	**5,000**	**10,000**	**15,000**
	Sales	**4,00,000**	**5,00,000**	**6,00,000**	**3,00,000**	**2,00,000**	**2,50,000**
	Stock on Consignment	**---**	**---**	**10,000**	**15,000**	**20,000**	**20,000**

Commission in each case is 10% on sales. [4]

Answer:

In Consignment Ledger
General Ledger Adjustment Account

Dr. **Cr.**

Date	Particulars	Amount (₹)	Date	Particulars	Amount (₹)
31.12.2013	To Sales	22,50,000	1.1.2013	By Consignment Stock	2,80,000
	``Consignment Stock (Closing)	65,000	31.12.2013	``Goods Sent on Consignment	13,50,000
				`` Expenses	70,000
			31.12.2013	`` Commission	2,25,000
				`` Balance c/f (Profit)	3,90,000
		23,15,000			23,15,000

Opening Sock =₹ [60,000 + 60,000 + 50,000 + 70,000 + 20,000 + 20,000]
= ₹2,80,000;

Goods sent on consignment = ₹ [2,00,000 + 3,00,000 + 4,00,000 + 2,00,000 + 1,00,000 + 1,50,000]
=₹ 13,50,000;

Expenses =₹ [10,000 + 20,000 + 10,000 + 5,000 + 10,000 + 15,000]
= ₹ 70,000;

Sales =₹ [4,00,000 + 5,00,000 + 6,00,000 + 3,00,000 + 2,00,000 + 2,50,000]
= ₹ 22,50,000;

Closing Stock = ₹ [10,000 + 15,000 + 20,000 + 20,000]
= ₹65,000.

5. (Answer any two)

(a) A consigned 300 units to B at a cost of ₹100 each.
Expenses were : (i) Paid by A – Freight ₹800 and Insurance ₹200.
(ii) Paid by B – Dock charges ₹200 and godown rent ₹100.
Commission payable to B – 10% on sales.
B sold 250 units @ ₹175 each and reported a deficiency of 10 units agreeing however to bear 50% of such deficiency. Show the journal entries in the books of A. [5+1+2=8]

Answer:

Books of X [Consignor]
Journal Entries

Date	Particulars		L.F.	Dr. (₹)	Cr.(₹)
	Consignment A/c To Goods Sent on Consignment A/c [Goods consigned to B as per Pro Forma Invoice…..]	Dr.		30,000	 30,000
	Consignment A/c To Bank A/c [Freight and Insurance paid on the above consignment]	Dr.		1,000	 1,000
	B A/c To Consignment A/c [Goods sold by B as per Account Sales dated………]	Dr.		43,750	 43,750
	Consignment A/c To B A/c [Expenses incurred by B as per account sales]	Dr.		300	 300
	Consignment A/c To B A/c [Commission payable to B @ 10% on ₹ 43,750]	Dr.		4,375	 4,375
	Stock on Consignment A/c To Consignment A/c [Unsold Stock on Consignment valued]	Dr.		4,160	 4,160
	Stock Deficiency A/c To Consignment A/c [Deficiency of Stock valued]	Dr.		1,040	 1,040
	Profit & Loss A/c B A/c To Stock Deficiency A/c [½ of the deficiency borne by consignee and the balance ½ charged against profits]	Dr. Dr.		520 520	 1,040
	Bank A/c To B A/c (43,750 + 520 – 300 – 4375) [Received the balance due from B]	Dr.		39,595	 39,595
	Consignment A/c To Profit & Loss A/c [Profit on Consignment]	Dr.		13,275	 13,275

Working Note:

Valuation of Stock Deficiency and Unsold Stock

Particulars	Units	Amount (₹)
Goods Consigned + Non-Recurring expenses by Consignor By consignee (Dock Charges)	300	30,000 1,000 200

	300	31,200
Stock Deficiency	10	$\frac{31,200 \times 10}{300}$ = ₹ 1,040
Unsold Stock [Quantity = 300 – 250 – 10]	40	$\frac{31,200 \times 40}{300}$ = ₹ 4,160

(b) (i) D Purchased 500 equity shares of ₹100 each in the Mohan Ltd. for ₹62,500 inclusive of brokerage and stamp duty. Some years later the company decided to capitalize its profit and to issue to the holders of equity shares one equity share as Bonus for every equity share held by them. Prior to capitalization, the shares of Mohan Ltd. were quoted at ₹175 per share. After the capitalization, the shares were quoted at ₹92.50 per share. D sold the Bonus shares and received ₹90 per share. Show Investment A/c in D's books on average cost basis as per AS 13. [5]

Answer:

Investment Account (equity shares of Mohan Co. Ltd.)

Dr. **Cr.**

Particulars	Normal Value (₹)	Cost (₹)	Particulars	Normal Value (₹)	Cost (₹)
To Balance b/d* To Bonus Shares A/c To Profit & Loss A/c(Profit on sale)	50,000 50,000	62,500 --- 13,750	By Bank A/c By Balance c/d	50,000 50,000	45,000 31,250
	1,00,000	76,250		1,00,000	76,250

Working Notes:

(i) Profit on sale of bonus shares = [₹45,000 – (₹62,500 x 50,000/1,00,000)] = ₹13,750
(ii) Value of investment will be least of market value ₹46,250 (i.e., 92.5% of ₹50,000) or average cost price (i.e., ₹31,250).

(ii) Write a note on the following:
Proportionate Discount Charges [3]

Answer:

Proportionate Discount Charges:

If the date of maturity of a bill falls on a date of a month within the accounting year, discounting of bill can be done without any problem. But when the date of maturity falls on a month of the next year i.e. the due date falls on two accounting periods, problem will arise. In such a situation, proportionate amount of discount will be charged to Profit and Loss Account.
This can be understood with the help of the following example:

A bill was drawn on 1st November, 2013 for ₹ 40,000 for 3 months. The bill was discounted by the bank on same day @12% p.a. Therefore, the total amount of discount will be ₹1,200 (i.e. 40,000 x 12% x $1/4$). So 2/3rd of ₹1,200, i.e. ₹800 will be transferred to Profit and Loss Account for the year ended 31st December, 2013.

(c) The premises of XY Ltd. were partially destroyed by fire on 1st March,2013 and as a result, the business was practically disorganized upto 31st August, 2013. The company is insured under a loss of profits policy for ₹ 1,65,000 having an indemnity period of 6 months.

From the following information, prepare a claim under the policy:

Sl. No.	Particulars	Amount (₹)
(i)	Actual turnover during the period of dislocation (1.3.2013 to 31.8.2013)	80,000
(ii)	Turnover for the corresponding period (dislocation) in the 12 months immediately before the fire	2,40,000
(iii)	Turnover for the 12 months immediately preceding the year fire (1.3.2012 to 28.2.2013)	6,00,000
(iv)	Net Profit for the last financial year	90,000
(v)	Insured standing charges for the last financial year	60,000
(vi)	Uninsured standing charges	5,000
(vii)	Turnover for the last financial year	5,00,000

Due to substantial increase in trade, before and up to the time of fire, it was agreed that an adjustment of 10% should be made in respect of the upward trend in turnover. The company incurred additional expenses amounting to ₹ 9,300 immediately after the fire and but for this expenditure, the turnover during the period of dislocation would have been only ₹ 55,000. There was also a saving during the indemnity period of ₹ 2,700 in insured standing charge as a result of the fire. [8]

Answer:

A. Rate of Gross Profit

	₹
Net Profit for the Last Financial Year	90,000
Add: Insured Standing Charges	60,000
	1,50,000

Turnover for the last financial year = 5,00,000. $\therefore$ Rate of Gross Profit = $\frac{1,50,000}{5,00,000}$ x 100 = 30%.

B. Short Sales

	₹
Turnover during the corresponding period from 1.3.2012 to 31.8.2012	2,40,000
Add: Increase @ 10%	24,000
Standard Turnover	2,64,000
Less: Actual turnover in the current dislocation period	80,000
Short Sales	1,84,000

C. Gross Profit on Short Sales = 30% of 1,84,000 = ₹ 55,200.

D. Adjusted Turnover

	₹
Annual Turnover [1.3.2012 to 28.2.2012]	6,00,000
Add: Increase @ 10%	60,000
Adjusted Turnover	6,60,000

E. Gross Profit on Adjusted Annual Turnover = 30% of 6,60,000 = ₹ 1,98,000

F. Additional Expenses Minimum of :

i. Increased Cost of Working x $\frac{\text{Net Profit} + \text{Insurred Standing Charges}}{\text{Net Profit} + \text{All Standing Charges}}$

=₹ 9,300 x $\frac{90,000 + 60,000}{90,000 + 65,000}$ = ₹ 9,000

ii. Gross Profit on Sales enhanced = 30% of (₹ 80,000 – ₹ 55,000) = ₹ 7,500

iii. Actual additional expenses ₹9,300

Allowable Additional Expenses = ₹7,500.

So, amount admissible as additional expenses = ₹ 7,500.

Computation of Claim

	₹
Loss of Profit on Short Sales (Note 3) Add: Additional Expenses Allowed	55,200 7,500
 Less: Saving in insured charges	62,700 2,700
	60,000

Claim under Average Clause = ₹ 60,000 x $\frac{\text{₹}1,65,000 \text{ (Policy Taken)}}{\text{₹}1,98,000 \text{ (Policy should have been taken)}}$

= ₹ 50,000.

6. (Answer any two)

(a) VK Ltd. sold goods worth ₹50,000 to YK Ltd. YK Ltd. asked for discount of ₹8,000 which was agreed by VK Ltd. The sale was effected and goods were dispatched. After receiving, goods worth ₹ 7,000 was found defected, which they returned immediately. They made the payment of ₹ 35,000 to VK Ltd. Accountant booked the sales for ₹ 35,000. Please discuss. [4]

Answer:

As per AS 9, revenue is the gross inflow of cash, receivable or other consideration arising in the course of the ordinary activities of an enterprise from the sale of goods, from the rendering of services, and from the use by others of enterprise resources yielding interest, royalties and dividends.

VK Ltd. should record the sales at gross value of ₹ 50,000. Discount of ₹ 8,000 in price and goods returned worth ₹ 7,000 are to be adjusted by suitable provisions. VK Ltd. might have sent the credit note of ₹ 15,000 to YK Ltd. to account for these adjustments. The contention of the accountant to book the sales for ₹ 35,000 is not correct.

(b) Write a note on — MOU [The Minutes of Usage]. [4]

Answer:

The Minutes of Usage (MOU) is the total duration of minutes for which a customer uses a telecommunication network during a given month. In the nascent days of mobile telecommunication in India, airtimes rates were very high and a customer had to pay for incoming calls as well. During those days, the MOU ranged from 110 to 150 minutes per month, as customers were wary of making calls.

However, with falling rates, the MOU has steadily reduced. As on September 2005, the blended MOU was in the range of 367 minutes signifying a multi-fold increase in network utilization.

The MOU is also analysed between prepaid and post-paid services and further drilled down between incoming and outgoing. In the current billing system, a customer does not pay for any incoming calls. However, incoming calls bring in revenue for a telecom operator in the form of IUC charges paid by other service providers for terminating calls.

(c) Calculate the contract revenue from the following details

(₹ In Crores)

Particulars	**Years I**	**II**	**III**
1. Initial contract revenue	**3000**	**3000**	**3000**
2. Revenue increase due to escalation in IInd year	**---**	**600**	**---**
3. Claim			**300**
4. Incentive Payment			**450**
5. Penalties		**150**	

[4]

Answer:

Calculation of contract revenue

(₹ In Crores)

Particulars	**Years I**	**II**	**III**
Initial contract value	3000	3000	3000
Increase in revenue due to escalation	---	600	600
Claims	---	---	300
Incentive	---	---	450
Penalties	---	(150)	(150)
Contract revenue	3000	3450	4200

7. (Answer any two)

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

- **Date of Commercial Operation of COD = 1st April 2010**
- **Approved Opening Capital Cost as on 1st April 2010 = ₹ 15,00,000**
- **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)	**1,00,000**	**30,000**	**20,000**	**10,000**

[4]

Answer:

Computation of Interest on Loans

Particulars	**1st year**	**2nd year**	**3rd year**	**4th year**

A. Opening Equity (30%)	4,50,000	4,80,000	4,89,000	4,95,000
B. Additional Equity (30%)	30,000	9,000	6,000	3,000
C. Closing Equity (A + B)	4,80,000	4,89,000	4,95,000	4,98,000
D. Average Equity [(A + C)/2]	4,65,000	4,84,500	4,92,000	4,96,500
E. Return on Equity [D×14%]	65,100	67,830	68,880	69,510

(ii) Discuss the steps involved in ODRC Method (Optimised Depreciated Replacement Cost). [4]

Answer:

The ODRC (Optimised Depreciated Replacement Cost) Method comprises the following steps:

Step 1: Preparing a detail Asset Register containing data on quantity, location, physical condition, age and maintenance of the assets.

Step 2: Calculation of the Replacement Cost (i.e. Cost of replacing the assets with modern equivalent assets).

Step 3: Assessment of Depreciation. The new assets at replacement costs identified earlier need to be depreciated in case the life of the existing asset is lower than the life of the new assets.

Step 4: System Optimisation: This is done to measure the most cost effective way of delivering service, in terms of capacity and quality to meet the requirements.

This involves three levels:

(i) Capacity Optimisation both in size and number;

(ii) Optimisation of spares; and

(iii) Optimisation of unit costs.

(b) When closing the books of a bank on 31.12.2012 you find in the loan ledger an unsecured balance of ₹2,00,000 in the account of a merchant whose financial condition is reported to you as bad and doubtful. Interest on the same account amounted to ₹ 20,000 during the year.
How would you deal with this item of interest in 2012 account?

During the year 2013, the bank accepts 75 paise in the rupee on account of the total debt due up to 31.12.2012.

Show the entries and the necessary accounts showing the ultimate effect of the transactions in 2013 books of account under Interest Suspense Method. [4+2+2=8]

Answer:

When preparing the 2012 accounts the sum of ₹20,000 due from the merchant on account of interest should not be carried to Profit and Loss Account, because its recovery was doubtful. It should, therefore, be transferred to an Interest Suspense Account which would appear as a liability in Balance Sheet on 31.12.2012.

In the Books of Bank Journal

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
2012 Dec. 31	Merchant A/c Dr. To Interest Suspense A/c (Interest due transferred to Interest Suspense A/c)		20,000	20,000
	Interest Suspense A/c Dr. Bad Debts A/c Dr. To Merchant A/c (Interest not received and balances transferred to Bad Debts A/c)		5,000 50,000	55,000
	Cash A/c Dr. To Merchant A/c (Amount received @ 0.75 p in the rupee from the merchant)		1,65,000	1,65,000
	Interest Suspense A/c Dr. To Profit and Loss A/c (Interest received out of Interest Suspense transferred)		15,000	15,000

In the Books of the Bank

Dr. Merchant's Account Cr.

Date	Particulars	₹	Date	Particulars	₹
2012 Dec. 31	To Balance b/d To Int. Suspense A/c	2,00,000 20,000	2012 Dec. 31	By Balance c/d	2,20,000
		2,20,000			2,20,000
2013 Jan. 1	To Balance b/d	2,20,000	2013 Dec. 31	By Cash (@ 75p in the rupee)	1,65,000
				By Int. Suspense A/c (amount of Int. not covered)	5,000
				By Bad Debts	50,000
		2,20,000			2,20,000

Interest Suspense Account

Dr. Cr.

Date	Particulars	₹	Date	Particulars	₹
2012 Dec. 31	To Balance c/d	20,000	2012 Dec. 31	By Merchant's A/c	20,000
		20,000			20,000

2013 Dec. 31	To Merchant's A/c To Profit & Loss A/c	5,000 15,000	2013 Jan. 1	By Balance b/d	20,000
		20,000			20,000

Notes:

A. Interest amounting to ₹20,000 due from customer has been debited to him by crediting Interest Suspense Account (and not to Interest A/c as its recovery is doubtful) and Interest Suspense A/c will appear in the liability side of the Balance Sheet.

B. Actual amount of interest which has been received in cash, i.e. ₹15,000, is transferred to P&L A/c.

(c) From the following figures appearing in the books of Fire Insurance division of Vipul General Insurance Company, show the amount of claim as it would appear in the Revenue Account for the year ended 31st March, 2014:

Particulars	Direct Business ₹	Re-Insurance ₹
Claim paid during the year	**70,05,000**	**10,50,000**
Claim Payable — 1st April, 2013	**11,44,500**	**1,30,500**
31st March, 2014	**12,18,000**	**79,500**
Claims received	**-**	**3,44,000**
Claims Receivable — 1st April, 2013	**-**	**98,000**
31st March, 2014	**-**	**1,69,500**
Expenses of Management (includes ₹ 52,500 Surveyor's fee and ₹ 67,500 Legal expenses for settlement of claims)	**3,45,000**	**-**

[2+6=8]

Answer:

Vipul General Insurance Company (Abstract showing the amount of claims)

Particulars	₹'000	₹'000
Claims less Re-insurance :		
Paid during the year	7,831.00	
Add: Outstanding claims at the end of the year	1,128.00	
	8,959.00	
Less: Outstanding claims at the beginning of the year	1,177.00	7,782.00

Working Notes:

	Particulars	₹'000	₹'000
1.	Claims paid during the year		
	Direct business	7,005.00	
	Reinsurance	1,050.00	8,055.00
	Add: Surveyor's fee	52.50	
	Legal expenses	67.50	120.00
			8,175.00
	Less : Claims received from re-insurers		344.00
			7,831.00
2.	Claims outstanding on 31st March, 2014		
	Direct business	1,218.00	
	Reinsurance	79.50	1,297.50

	Less : Claims receivable from re-insurers		169.50
			1,128.00
3.	Claims outstanding on 1st April, 2013		
	Direct business	1,144.50	
	Reinsurance	130.50	1,275.00
	Less : Claims receivable from re-insurers		98.00
			1,177.00