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]**

(a) Rectify the following errors by passing necessary journal entries:

- ₹ 1,500 received from Praveen against debts previously written off as bad debts have been credited to his personal account.
- A cheque received from Amar, a debtor, for ₹ 2,000 was directly received by the proprietor who deposited it into his personal bank account.

(b) 'A' and 'B' are Partners sharing Profits and Losses in the ratio of 3:1. Their Capitals were ₹ 3,00,000 and ₹ 2,00,000 respectively. As from 1st April 2014, it was agreed to change the Profit Sharing Ratio to 3:2. According to the Partnership Deed, Goodwill should be valued at two years' purchase of the average of three years' profits. The profits of the previous three years ending 31st March were - 2012 – ₹ 1,50,000, 2013 – ₹ 2,00,000 and 2014 – ₹ 2,50,000.
Pass the necessary Journal Entry to give effect to the above arrangement in the Capital Accounts of the partners.

(c) Following Memorandum Royalty Statement are given with missing figures.

Year	Royalty	Min. Rent	Short working	Recoupment	Short working carried forward	Trf to P&L A/c	Payment to landlord
2010	-	10,000	?	-	?	-	10,000
2011	3,300	10,000	?	-	16,700	-	10,000
2012	11,100	10,000	-	1,100	15,600	-	?

Complete this above statement considering that excess of Minimum Rent over royalties are recoverable out of royalties of nest five years.

(d) A Company sold 25% of the goods on Cash Basis and the balance on Credit Basis. Debtors are allowed 2 months credit and their balance as on 31st March (Closing Balance) is ₹ 1,40,000. Assume that the Sale is uniform throughout the year. Calculate the Total Sales of the Company for the year ended 31st March.

(e) Gupta Traders keep their Ledger on self-balancing system, and provide the following data for the period just ended.

Particulars	₹	Particulars	₹
Opening Balance of Debtors	1,37,250	Cash Received from customers	76,800
Credit Sales	71,700	Discount Received	2,010
Returns Inward	1,200	Returns Outward	1,800

Prepare General Ledger Adjustment A/c in the Sales Ledger of Gupta Traders.

(f) From the following data, show degree of completion as would appear in the books of a contractor following Accounting Standard – 7:

Particulars	(₹ in lakhs)
Contract Price	960
Cost incurred to date	600
Estimated cost to complete	400

(g) On 12th June, 2013, a fire occurred in the premises of N.R. Patel, a paper merchant. Most of the stocks were destroyed, cost of stock salvaged being ₹11,200. In addition, some stock was salvaged in a damaged condition and its value in that condition was agreed at ₹ 10,400. The Estimated Value of stock at the date of fire was ₹ 80,000. On the basis of his accounts, it appears that he earns on an average a gross profit of 25% on sales. Patel has insured his stock for ₹ 60,000. Compute the amount of claim

(h) Dadaji & Co. records through its Sales Day Book goods sent for approval to a few customers. On 31 March, 2014 when it closed its accounts its Debtors and Stock in hand were ₹ 1,50,000 and ₹ 75,000 respectively. The Debtors included ₹ 6,000 due from Raja and ₹ 2,000 from Praja for goods sent for approval to them at a profit of 33-$\frac{1}{3}$% on cost. But no intimation was received from them till 31.3.2014.

Show how these items will appear in the Balance Sheet on 31 March, 2014.

(i) As on 31.12.13, the books of the Hero Bank include, among others, the following balances-

Particulars	₹
Rebate on Bills discounted (01.01.2013)	3,20,000
Discount Received	46,00,000
Bills Discounted and Purchased	3,15,47,000

Throughout 2013, the Bank's Rate for Discounting has been 18%. On investigation and analysis, the Average due date for the Bills discounted and purchased is calculated on 15.02.2014 and that for Bills for collection as 15.01.2014.

Compute the Rebate pertaining to the period after Balance Sheet Date.

(j) Mention any two activities requiring Licence under the Electricity Act, 2003**.**

2. (Answer any two) **[2x4]**

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

(iv) 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.

(v) The rate of gross profit was 20% on the cost price. **[4]**

(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]**

(c) Distinguish between Capital Expenditure and Revenue Expenditure. **[4]**

3. (Answer any two) **[2x12]**

(a) (i) Water Industries Ltd. gives the following estimates of cash flows relating to fixed asset on 31-12-2012. The discount rate is 15%.

Year	Cash flow(₹ in Lakhs)
2013	2,000
2014	3,000
2015	3,000
2016	4,000
2017	2,000
Residual value at the end of 2017	500

Fixed Asset purchased on 01-01-2010 for ₹20,000 lakhs

Useful life 8 years

Residual value estimated ₹ 500 lakhs at the end of 8 years. Net selling price ₹ 10,000 lakhs.

Calculate on 31-12-2012.

A. Value in use on 31-12-2012.
B. Carrying Amount at the end of 31-12-2012
C. Recoverable amount on 31-12-2012.
D. Impairment loss to be recognized for the year ended 31-12-2012.
E. Revised carrying amount.
F. Depreciation charge for 2013. **[2+2+1+1+1+1]**

(ii) Distinguish between Profit and Loss Account and Income & Expenditure Account **[4]**

(b)(i) From the following, you are required to calculate the Net Cash Flow from the Operating Activities by Indirect Method:

Particulars	31 March 2013 ₹	31 March 2014 ₹
Balance of Profit & Loss A/c	60,000	65,000
Debtors	87,000	40,000
Bills Receivable	62,000	1,03,000
General Reserve	2,02,000	2,37,000
Salary Outstanding	30,000	12,000
Wages Prepaid	5,000	7,000

Goodwill	80,000	70,000

[6]

(ii) 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

[4]

(iii) Mention any two features of Accounting for Independent Branches. **[2]**

(c) 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.

[12]

4 (Answer any two) **[4x2]**

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

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]**

(b) Distinction between Self Balancing System and Sectional Balancing System. **[4]**

(c) Prepare the General Ledger Adjustment Accounts as will appear in Debtors Ledger from the information given below:

Particulars	Dr. (₹)	Cr.(₹)
Debtors' Ledger	47,200	240

Transactions for the year ended 31.3.2014:

Total Sales	1,20,100
Cash Sales	8,100
Received from Debtors (in full settlement of ₹59,000)	58,200
Bills Accepted by customers	20,100
Bills Receivable Dishonoured	1,500
Bills Receivable endorsed to creditors	4,000
Endorsed bills Dishonoured	1,000
Bad Debts	2,200
Provision for Doubtful debts	550
Transfer from Creditors Ledger to Debtors Ledger	1,900

Balance on 31.03.2014

Debtors' Ledger (Cr.)	₹380

[4]

5 (Answer any two) **[4x2]**

(a) Excellent Construction Company Limited undertook a contract to construct a building for ₹3 crores on 1st September, 2012. On 31st March 2013, the company found that it had already spent ₹ 1 crore 80 Lakhs on the construction. Prudent estimates of additional cost of completion was ₹ 1 Crore 40 lakhs . Calculate what amount should be charged, to revenue in the final accounts for the year ended on 31st March 2013, as per the provisions of AS -7? **[4]**

(b) Write a note on Segment Reporting in the perspective of Telecommunication Sector. **[4]**

(c) On 25th September, 2013, Planet Advertising Limited 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. **[4]**

6 (Answer any two) **[8 x 2]**

(a) A fire occurred in the premise of ME X-Ray & Co. on 15.5.14 causing destruction of large part of the stock. The firm had taken a fire insurance policy for ₹ 5,47,200 to cover the loss of stock by fire. From the records saved the following particulars were ascertained:

	₹		₹
Purchases for the year 2013	30,01,600	Stock on 31st December 2013	7,74,400
Sales for the year 2013	37,12,000	Wages paid during 2013	3,20,000
Purchases from 1st January 2014 to 15th May 2014	5,82,400	Wages paid during 1st January 2014 to 15th May 2014	57,600
Sales from 1st January 2014 to 15th May 2014	7,68,000	Stock Salvaged was	89,600
Stocks on 1st January 2013	4,60,800		

In 2013 some goods were destroyed by fire. The cost of such goods was ₹ 1,60,000. These goods were not covered by any insurance policy. In valuing the stock on 31st December 2014 stocks costing ₹ 34,000 were found to be poor selling line and ₹ 6,000 in relation to such stock were written off. A portion of these goods (original cost ₹ 5,000) were sold in April 2014 at a loss of ₹ 1,000 on original cost. The remainder of this stock was now estimated to be worth the original cost. Subject to the above exception, gross profit has remained at a uniform rate throughout. You are required to ascertain the insurance claim available to the firm. **[8]**

(b) (i) Explain the preparation of Account Current by the Method of Products. **[4]**

(ii) On 01.04.20X1, Dhakshinamurthi purchased 1,000 Equity Shares of ₹ 100 each in Lakshmi Ltd at ₹ 120 each from a Broker, who charged 2% Brokerage. He incurred 50 paise per ₹ 100 as cost of Share Transfer Stamps. On 31.01.20X2, Bonus was declared in the ratio of 1:2. Before and after the record date of Bonus Shares, the Shares were quoted at ₹ 175 per Share and ₹ 90 per Share respectively. On 31.03.20X2, Dhakshinamurthi sold Bonus Shares to a Broker, who charged 2% Brokerage.

Show the Investment Account in the books of Dhakshinamurthi, who held the shares as Current Assets. Closing Value of Investments shall be made at Cost or Market value whichever is less. **[4]**

(c) B of Bombay consigned 400 packages of coffee to K of Kanpur. The cost of each package was ₹300. A sum of ₹2,000 was paid towards freight and by B. In the transit 60 packages were damaged. However, the consignor received ₹400 for the damaged packages from the Insurance Company.

The consignee accepted a bill of exchange for 60,000 for 60 days as an advance to B of Bombay. The Operating statement from the consignee disclosed the following information:

(i) 280 packages were sold @ ₹ 360 per package; (ii) The damaged packages were sold @ ₹ 100 per package, (iii) They also paid ₹ 1,400 towards godown rent, ₹ 1,000 for carriage outwards and ₹ 3,400 towards clearing charges.

The consignee is entitled to a commission of 10% on the sales proceeds. At the end of the consignment period, K of Kanpur sent a Bank draft to B of Bombay. You are required to prepare the Consignment to Kanpur Account and Damage in Transit Account in the books of consignor B of Bombay. **[8]**

7 (Answer any two) **[8x2]**

(a) From the following information Calculate Depreciation and Advance against Depreciation as per Regulation 21 of the Central Electricity Regulatory Commission (Terms and Conditons of Tariff) Regulations, 2004.

- Date of Commercial Operation of COD = 1st April 2010
- Approved opening Capital cost as on 1st April 2010 = 1,50,000
- Weighted Average Rate of Depreciation: 3.5%
- 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]

(b)(i) Write a note on Reserve Funds (Statutory Reserve) in the context of Banking Companies [Under Section 17]. **[3]**

(ii) Explain about the Maintenance of Cash Reserve Under Section 18. **[5]**

(c) The Revenue Account of a Life Insurance Company showed the Life Fund at ₹ 73,17,000 on 31st March before taking into consideration the following items. Pass the Journal Entries for the following and compute the Corrected Balance of Life Fund.

Particulars	₹
Claims Intimated but not Admitted	98,250
Bonus Utilized in Reduction of Premium	13,500
Interest Accrued on Investments	29,750
Outstanding Premiums	27,000
Claims covered under Re-Insurance	40,500
Provision for Taxation	31,500

[8]