Paper 5- Financial Accounting

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

	Learning objectives	Verbs used	Definition
LEVEL B	KNOWLEDGE What you are expected to know	List	Make a list of
		State	Express, fully or clearly, the details/facts
		Define	Give the exact meaning of
	COMPREHENSION What you are expected to understand	Describe	Communicate the key features of
		Distinguish	Highlight the differences between
		Explain	Make clear or intelligible/ state the meaning or purpose of
		Identity	Recognize, establish or select after consideration
		Illustrate	Use an example to describe or explain something
	APPLICATION How you are expected to apply your knowledge	Apply	Put to practical use
		Calculate	Ascertain or reckon mathematically
		Demonstrate	Prove with certainty or exhibit by practical means
		Prepare	Make or get ready for use
		Reconcile	Make or prove consistent/ compatible
		Solve	Find an answer to
		Tabulate	Arrange in a table
	ANALYSIS How you are expected to analyse the detail of what you have learned	Analyse	Examine in detail the structure of
		Categorise	Place into a defined class or division
		Compare and contrast	Show the similarities and/or differences between
		Construct	Build up or compile
		Prioritise	Place in order of priority or sequence for action
		Produce	Create or bring into existence

Paper 5- Financial Accounting

Full Marks:100 **Time allowed: 3 hours**

[This paper contains 7 questions. All questions are compulsory, subject to instruction provided against each question. All workings must form part of your answer.]

1. Answer All questions (give workings) [2 x 10=20]

(i) A publishing company undertook repair and overhauling of its machinery at a cost of ₹ 5.00 lakhs to maintain them in good condition and capitalized the amount, as it is more than 25% of the original cost of the machinery. As an auditor, what would you do in this situation?

(ii) Purchase price machine ₹8,90,000; Freight and Cartage ₹7,000; Installation charges ₹ 30,000; Insurance charges ₹20,000; Residual Value of machine is ₹40,000; Estimated useful life 5 years. Calculate the amount of annual depreciation under straight line method.

(iii) Show how will you deal with the following items while preparing the final accounts of a club for the year ending on March 31,2015:

Prizes awarded	**₹ 2,000**
Prize Fund as at 31.03.2014	**₹12,000**
Donations for Prizes received during the year 2014 – 2015	**₹ 2,800**

(iv) X, Y and Z are partners sharing profits & losses in the ratio of 3:2:1. After the final accounts have been prepared, it was discovered that Interest on drawings had not been taken into consideration, the Interest on drawings of partners amounted to — X ₹250; Y ₹190 and Z ₹100. Show the amount to be adjusted in their respective accounts.

(v) On 1st April, "A" purchased 12% debentures in S Ltd. for ₹6,50,000. The face value of these debentures were ₹6,00,000. Interest on debentures falls due on 30th June and 31st December. Compute the cost of acquisition of debentures.

(vi) A Company took a construction contract for ₹100 lakhs in January, 2014. It was found that 80% of the contract was completed at a cost of ₹92 lakhs on the closing date i.e. on 31.3.2015. The company estimates further expenditure of ₹23 lakhs for completing the contract. The expected loss would be ₹15 lakhs. Can the company recognise the loss in the financial statements prepared for the year ended 31.3.2015?

(vii) Actual value of stock as at date of fire is ₹5,00,000. The value of salvaged stock is ₹1,00,000 and the Sum Insured is ₹2,50,000. Calculate the amount of claim.

(viii) **Mugdha Ltd. furnished the following particulars:**
Debtors ledger include ₹24,000 due from Mitra Ltd. whereas creditors ledger include ₹ 14,400 due to Mitra Ltd.

Journalise the above.

(ix) **Indian Assurance Co. Limited has the following balances as on 31st March –**

Life Assurance Fund	₹3,800 Lakhs
Net Liability as per Valuation	₹3,000 Lakhs
Interim Bonus paid	₹500 Lakhs

You are required to show –Distribution Statement as on 31st march, 2015.

(x) **In X Bank Ltd. , the doubtful assets (more than 3 years) as on 31.03.2015 is ₹1,000 lakhs. The value of security (including DICGC 100% cover of ₹100 lakhs) is ascertained at ₹500 lakhs. How much provision must be made in the books of the Bank towards doubtful assets?**

2. Answer any two.

(a) **The retailer has large numbers of rapidly changing inventory items that have similar margins and for which it is impracticable to use other costing methods. He furnishes the following details:**

Particulars	Items	Cost	Retail Price
Opening Stock	10,000 units	50 per unit	80 per unit
Purchases	1,00,000 units	60 per unit	100 per unit
Sales ₹86,40,000			

Calculate the value of closing stock as per retail method. **[4]**

(b) **The date of year ending of a firm is 31st of March every year. In 2014 – 15 the physical verification of stock was completed on 10 April, 2015. When stock as per physical verification was ₹2,40,000. The following information is available:**

I. **Sales between 01.04.15 and 10.04.15 amounted to ₹55,000 which included –**
- **(i)** **Goods sent on consignment at an invoice price of ₹18,000 which included a loading of 20% on cost.**
- **(ii)** **Goods sent to its branch at Pune at a price of ₹16,200 which was made by adding a margin of 20% on cost.**
- **(iii)** **Profit included in other sales was $33\frac{1}{3}\%$ on cost.**
- **(iv)** **Damaged goods sold for ₹3,000 at a loss of 25% on cost.**

II. **Goods received as consignee and included in stock ₹12,000.**
III. **Goods costing ₹3,000 were received in stores but were omitted to be recorded in the books within 31.03.2015.**

IV. **Invoices were issued for ₹8,000 on 31.03.15 but the goods were actually delivered on 08.04.15**

You are required to compute the value of stock on 31.03.2015. [4]

(c) List the Disclosure requirements as per AS – 11 [4]

3. (Answer any two)

(a) (i) X, Y and Z are partners sharing profits an loses in the ratio of 4: 3: 2 respectively. On 31st march, 2015 Y retires and X and Z decide to share profits and losses in the ratio of 5:3. Then immediately, W is admitted for 3/10th shares in profits, 2/3rd of which was given by X and rest was taken by W from Z. Goodwill of the firm is valued at ₹2,16,000. W brings required amount of goodwill.

Give necessary journal Entries to Adjust goodwill on retirement of Y and admission of W if they do not want to raise Goodwill in the books of accounts. [3]

(a) (ii) M/s Bright and Company with its H.O. in Madras invoiced goods to its branch at Bombay at 20% less than the catalogue price which is cost plus 50% with instructions that cash sales were to be made at invoice price and credit sales at catalogue price. Discount on credit sales at 15% on prompt payment will be allowed. From the following particulars available from the branch, prepare Branch Trading and Profit and Loss Account for the year ended 31st March 2015, in the H.O. books.

Opening Stock (invoice price) ₹12,000; Goods received from H.O. (invoice price) ₹1,32,000; Opening Debtors ₹10,000; Sales— Cash ₹46,000; Sales— Credit ₹1,00,000; Cash realised from debtors ₹85,635; Discount allowed to debtors ₹13,365; Expenses at the branch ₹6,000; Remittances to H.O. ₹1,20,000; Closing Debtors ₹11,000; Closing Cash in hand ₹ 5,635; Closing Stock (Invoice price) ₹15,000.

It was reported that a part of the stock at the branch was lost by fire during the year whose value is to be ascertained; and a provision should be made for discount to be allowed to debtors as at 31st March 2015 on the basis of the year's trend of prompt payment. [9]

(b) M/s Multistory Limited sells goods both on cash and hire purchase basis and record hire-purchase transactions on "Stock and Debtors System". It closes its books of accounts on 31st ' March every year. On 1st May, 2014, it sold to Manab a Scooter and a LCD TV.

The other information are as follows:

Particulars	Scooter	LCD TV
Cost Price	30,000	40,000
Down Payment	5,000	6,000
Number of Installments Payable	12	6
Amount of each Installment	2,800	7,600
Mode of payment	Monthly	Quarterly
1st Installment due on	1st June ,2011	1st July, 2011

Manab paid all the installments due except for those due on 1st January, 2015. It was decided that M/s. Multistore Limited will take back Scooter at an agreed price of ₹22,000 and excess amount, if any, will be adjusted against the installments due of LCD TV.

Scooter repossessed was sold for ₹24,500 after incurring repair charges of ₹1,000.

Prepare necessary ledger accounts to record the above transactions and find out the profit.

[12]

(c) A, B and C were carrying on a business in partnership, sharing profits and losses in the ratio of 5 : 3 : 2 respectively. The firm earned a profit of ₹3,60,000 for the accounting year ended 31st March, 2014 on which date the firm's Balance Sheet stood as follows:

Balance Sheet as at 31st March, 2014

Liabilities	₹	Assets	₹
A's Capital	7,00,000	Freehold Land and Building	8,00,000
B's Capital	5,70,000	Machinery	3,50,000
C's Capital	4,30,000	Furniture & Fixtures	1,02,000
Creditors	79,400	Stock	2,98,800
Outstanding Expenses	4,900	Debtors	1,60,000
		Cash at Bank	73,500
Total	17,84,300	Total	17,84,300

A died on 31st August, 2014. According to firm's partnership deed, in case of death of a partner:-

(i) Assets and Liabilities have to be revalued by an independent valuer.

(ii) Goodwill is to be calculated at two years' purchase of average profits for the last three completed accounting years and the deceased partner's capital account is to be credited with his share of goodwill.

(iii) The share of the deceased partner in the profits for the period between end of the previous accounting year and the date of death is to be calculated on the basis of the previous accounting year's profits. Post death of A,B & C will share profit in the ratio of 3:2.

Profits for the accounting years 2011 – 2012 and 2012 – 2013 were as follows: -

	₹
For the year ended 31st March, 2012	2,90,000
For the year ended 31st March, 2013	3,40,000

Drawings by A from 1st April, 2014 to the date of his death totaled ₹46,000.

On revaluation, Freehold Land and Building was appreciated by ₹1,00,000; Machinery was depreciated by ₹ 10,000 and a Provision for Bad Debts was created @ 5% on Debtors as on 31st March, 2014. P's sole heir was given ₹5,00,000 immediately and the balance along with interest @ 12% per annum was paid to him on 31st March, 2015.

Prepare Revaluation Account, A's Capital Account and A's Heir Account, giving important working notes. **[12]**

4. (Answer any two)

(a) Mr. Burmani, the accountant of Sidhant Ltd., committed some errors in preparing the accounts of the concern for the year accounting year ending on 31.3.2015.
You are requested to show the necessary entries assuming
(1) There is no self-balancing system and .
(2) There is self-balancing system.
You may use Suspense Account, if required :
(i) Mr. Sen returned goods of the value of ₹1,200 which were entered in the sales day book and posted to the credit of his account.
(ii) Goods sold to Mr. Bhar for ₹2,000 was correctly recorded in the sales day book but wrongly posted as 20 to the debit of the account of Mr. Bhowmick.
(iii) Mr. Mitra returned goods of the value of ₹420 but this was posted to the debit of his account.
(iv) Discount allowed ₹4,000 were recorded in the Sales Ledger but were not adjusted in the Sales Ledger. [4]

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

(c) From the following particulars obtained from the books of Mr. Jhunjhunwala, a trader, prepare Debtors Ledger Adjustment Account for the year ended 31st December, 2014:

01.01.2014: Opening Balance — ₹30,000

up to 31.12.14 : Credit Sales — ₹90,000; Sales Returns— ₹500; Cash received from Debtors— ₹ 40,000; Bills Receivable— ₹15,000; Discount Allowed to Debtors— ₹400; Bad Debts— ₹ 350; Transfer from another ledger— ₹750; Bill receivable endorsed to suppliers— ₹1,000; Bill receivable discounted— ₹200. [4]

5. (Answer any two)

(a) From the following data, show Profit and Loss A/c (Extract) as would appear in the books of a contractor following Accounting Standard – 7:

	(₹ in Lakhs)
Contract Price (fixed)	960.00
Cost incurred to date	600.00
Estimated cost to complete	400.00

[4]

(b) M/s. River Ltd. recognized ₹5.00 lakhs, on accrual basis, income from dividend during the year 2014-15, on shares of the face value of ₹25.00 lakhs held by it in Rock Ltd. as at 31st March, 2015. Rock Ltd. proposed dividend @ 20% on 10th April, 2015. However, dividend was declared on 30th June, 2015. Please state with reference to relevant Accounting Standard, whether the treatment accorded by River Ltd. is in order. [4]

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

6. Answer any two.

(a) On 1st April, 2014, Vikash has 50,000 equity shares of P Ltd. at a book value of ₹15 per share (face value ₹10 each). He provides you the further information:

(1) On 20th June, 2014, he purchased another 10,000 share of P Ltd. at ₹16 per share.

(2) On 1st August, 2014, P Ltd. issued one equity bonus share for every six shares held by the shareholders.

(3) On 31st October, 2014 the directors of P Ltd. announced a right issue which entitle the holders to subscribe three shares for every seven shares at ₹15 per share. Shareholders can transfer their rights in full or in part.

Vikash sold 1/3rd of entitlement to Prasad for a consideration of ₹2 per share and subscribe the rest on 5th November, 2014.

You are required to prepare Investment A/c in the books of Vikash for the year ending 31st march, 2015. [8]

(b) M/S Ashim Electricals sends goods to its customers on sale or returnable basis. The following transactions took place during January to March 2015:

2011		₹
January- 10	Sent goods to customers on sale or returnable basis at cost plus 25%	5,00,000
January – 30	Goods returned by customers	2,00,000
February – 28	Received letter of approval from customers	2,00,000
March -31	Goods with customers awaiting approval	1,00,000

Vijoy Electrical records sale or return transactions as ordinary sales transaction. You are required to pass the necessary journal entries in the books of account assuming that the accounting year closes on 31st March, 2015. [8]

(c) On 1st January 2015, A's Account in B's Ledger showed a debit balance of ₹5,000. The following transactions took place between B and A during the quarter ended 31st march 2015:

2015	Particulars	₹
Jan.11	B sold goods to A	6,000
Jan. 24	B received a Promissory Note from A, 3 months date	5,000
Feb. 01	A sold goods to B	10,000
Feb. 04	B sold goods to A	8,200
Feb. 07	A returned gods to B	1,000
March 01	A sold goods to B	5,600
March 18	B sold goods to A	9,200
March 23	A sold goods to B	4,000

Accounts were settled on 31st March 2015, by means of a cheque. Prepare an account Current to be submitted by B to A as on 31st March 2015, taking interest into account at 10% per annum. Calculate Interest to the nearest multiple of a rupee. [8]

7. Answer any two.

(a) (i) State the reason why an immediate shift to the ODRC Method Is not recommended. [4]

(a) (ii) 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:

1. **Date of Commercial Operation of COD = 1st April 2010**
2. **Approved Opening Capital Cost as on 1st April 2010 = ₹1,50,000**
3. **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	2,000

[4]

(b) (i) Indian Insurance Co. Ltd. furnishes you with the following information:

1. **On 31.03.2014 it had reserve for unexpired risks to the tune of ₹40 crores. It comprised of ₹15 crores in respect of marine insurance business; ₹20 crores in respect of fire insurance business and ₹5 crores in respect of miscellaneous insurance business.**
2. **It is the practice of Indian Insurance Co. Ltd. to create reserves at 100% of net premium income in respect of marine insurance policies and at 50% of net premium income in respect of fire and miscellaneous income policies.**
3. **During 2014 - 2015, the following business was conducted:**

(₹ in cores)

	Marine ₹	Fire ₹	Miscellaneous ₹
Premia collected from:			
(a) Insured's in respect of Policies issued	18	43	12
(b) Other insurance companies in respect of risks undertaken	7	5	4
Premia paid/payable to other insurance companies on business ceded	6.7	4.3	7

Indian Insurance Co. Ltd. asks you to pass journal entries relating to "Unexpired risks reserve". [6]

(b) (ii) Packing credit outstanding from Food Processors ₹60 lakhs against which the bank holds securities of ₹20 lakhs (Realisable value 75%). 40% is covered by ECGC limited to ₹15 lakhs. The above advance has remained doubtful upto 3 years. Calculate the amount of provision required to be made. [2]

(c) Given below is an extract from the Trial Balance of Jamuna Bank Ltd. as at 31st March, 2015.

	₹	₹
Bills Discounted & Purchased	**50,00,000**	
Rebate on Bills Discounted (at 01.04.2012)		**16,685**
Discount Received		**2,00,000**

An analysis of the bills discounted @ 16% p.a. and held on 31.3.2015 is as follows:-

Date of Bill	Amount (₹)	Term (Months)
Feb. 9, 2015	5,00,000	4
Feb. 17, 2015	6,00,000	3
March 6, 2015	4,00,000	4

Required:

(i) Calculate the amount to be credited to Profit & Loss Account in respect of Discount:

(ii) Pass the necessary Journal entries. **[8]**