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 fire damaged the premises of a trader resulting in loss of stock of ₹ 5,00,000. The goods salvaged from fire was ₹ 30,000. The policy was for ₹ 3,50,000 eligible for average clause. You are to ascertain the amount of insurance claim to be made.

(ii) Mr. Vikas sold 1,500, 10% debentures (face value ₹ 100 each) of Shiva Limited at ₹ 125 cum-interest on 01.01.2015. The interest is payable on 31st March and 30th September every year. Find out the actual amount received by Vikas (excluding interest) on account of sale of investment.

(iii) New Bank Ltd. informs you the following:

- Bill discount commission (unadjusted) ₹ 21,00,000
- Rebate on bills discounted as on 01.04.2013 ₹ 2,43,000
- Rebate on bills discounted as on 31.03.2014 ₹2,18,000

Compute the discount to be credited to the profit and loss account of the Bank for the year ended 31.03.2014.

(iv) ₹ 90,000 is the annual instalment to be paid for three years (given Present Value of an annuity of Re. 1 p.a. @ 5% interest is ₹ 2.7232). Ascertain the Cash Price in case of Hire-Purchase.

(v) On 1st April 2014, a head office purchased a plant costing ₹ 66,000 for the branch. On 1st January 2015, the branch purchased furniture for ₹10,000. The rate of depreciation on plant is 33-1/3% p.a. and on furniture 10% p.a. The accounting year of the head office and branch is the financial year.

Required: Give the necessary journal entries in the books of H.O., if fixed assets accounts are maintained at Head Office

(vi) X Ltd. furnished the following particulars:

Debtors' ledger includes ₹9,000 due from Pin top Ltd. whereas creditors ledger include ₹ 5,400 due to Pin top Ltd.

Journalize the above.

(vii) Red Ltd. purchases goods from Yellow Ltd. for ₹ 500 crore for export. The export order was cancelled. Red Ltd. decided to sell the same goods in the local market with a price discount. Yellow Ltd. was requested to offer a price discount of 15%. The chief accountant of Yellow Ltd. wants to adjust the sales figure to the extent of the discount requested by Yellow Ltd. Discuss whether this treatment is justified.

(viii) The following data apply to a company's defined benefit pension plan for the year:

Amount (₹)

Fair market value of plan assets (beginning of year)	2,16,000
Fair market value of plan assets (end of the year)	3,07,800
Employer Contribution	75,600
Benefit Paid	54,000

Calculate the actual return on plan assets.

(ix) AB is in need for funds and approaches BC. BC unable to find the money, agrees to accept a bill of Exchange for ₹ 20,000 drawn on him at 3 months for accommodation. The bill was drawn, accepted and discounted with bank at 6 % p.a. On the due date AB remits the required amount to BC . Give the entry for remittance of the amount.

(x) ABC Insurance Co. Ltd. has the following balances as on 31st March –

Life Assurance Fund	₹ 17,100 Lakhs
Net Liability as per Valuation	₹ 13,500 Lakhs
Interim Bonus paid	₹ 2,250 Lakhs

You are required compute the profit/surplus as on 31st March.

2. (Answer any two)

(a) Mr. Right sold goods on credit to various customers. Details related to one of the customer, Mr. Good is as under:

(i) Goods sold on credit ₹3,50,000.
(ii) Goods returned by the customer ₹30,000 due to defective quality, credit note raised but not recorded.
(iii) Payment received from customer in cash ₹75,000 and by cheques ₹91,500. Out of cheques received, a cheque of ₹14,000 was dishonoured by bank.
(iv) Customer accepted two Bills of ₹10,500 and ₹32,000 for 2 months and 3 months respectively.

Mr. Good the customer is in need to ascertain the actual balance due to Mr. Right. Prepare a Reconciliation Statement. **[4]**

(b) The total of debit side of Trial balance of a larger boot and shoe repairing firm as on 31.12.2013 is ₹1,66,590 and that of the credit side is ₹42,470. After several checking and re-cheking the mistakes are discovered:

Items of Account	Correct Figure (as it would be)	Figures as it appear in the Trial Balance
Opening Stock	₹15,900	₹15,600
Repairing (shown as debit balance)	₹61,780	₹61,780
Rent & Taxes	₹4,640	₹4,400
Sundry Creditors	₹6,270	₹5,900
Sundry Debtors	₹7,060	₹7,310

Ascertain the correct total of the Trial Balance. **[4]**

(c) List the significant differences between Book keeping and Accountancy. **[4]**

3. (Answer any two)

(a)(i) Akash Ltd. has 3 departments A ,B and C. The following information is provided:

Particulars	A ₹	B ₹	C ₹
Opening Stock	6,000	8,000	6,000
Consumption of direct materials	16,000	24,000	-
Wages	10,000	20,000	-
Closing Stock	8,000	28,000	16,000
Sales	-	-	68,000

Stock of each department is valued at cost to the department connected. Stocks of A department are transferred to B at a margin of 50% above departmental cost. Stocks of B department are transferred to C department at a margin of 10% above departmental cost. Other expenses were: salaries ₹4,000, Printing and Stationary ₹ 2,000, rent ₹12,000, Interest paid ₹8,000, Depreciation ₹6,000,. Allocate expenses in the ratio of departmental gross profit. Opening figures of reserve for unrealized profits on departmental stock were: Department B ₹2,000; Department C ₹4,000. **[8]**

(ii) It was decided to make specific provisions in the accounts for the year ended 31.03.14 for the following doubtful debts after examining the sales ledger of the firm:
A ₹ 1,900; B ₹ 300 ; C ₹ 2,680 and D ₹ 1,380.
It was decided to make also a general provision of 5% on the other debtors who were on 31st March 2013 amounted to ₹ 2,16,000.
No other transaction relating to the debtors were made but successors of A and D sent final dividend of ₹ 600 and ₹ 840 respectively and C paid his debt in full.
On 31.03.2014, it was decided to maintain the provision against B's debt and make further provision for the following debts considered doubtful:
E ₹ 1,300; F ₹ 680 and G ₹ 1,020.
The other debtors amounted to ₹ 2,60,000 and it was required to make the general provisions for doubtful debts equal to 5% of these debts. Show Bad Debts Account and Provision for Bad Debts Account. **[4]**

(b) The firm of Kapil and Dev has four partners and as on 31st March, 2014, its Balance Sheet stood as follows:

Balance Sheet as at 31st march, 2014

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 1.4.2014 on the basis of the following understanding:

(i) 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%

(ii) In the case of the loan, the lenders are to be paid at their insistence a prepayment premium of 1%.

(iii) 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]**

(c) The following information has been obtained from the books of a lesee relating to the years 2010-11 to 2013-14 :

Payments to Landlord (after tax deducted @ 20% at Source) :

	2010-11	₹ 12,000
	2011-12	₹ 12,000
	2012-13	₹ 12,000
	2013-14	₹ 19,200
Short-working recovered :	2011-12	₹ 2,500
	2012-13	₹ 1,000
Short-working written-off :	2012-13	₹ 500

Balance of Short-working Account forward on April 1, 2010 ₹ 800 (which are in 2010-11). According to the terms of agreement short-working is recoverable within the next two years following the year in which short-working arises.

You are required to show the necessary accounts in the books of the lessee for the four years ended 31st March 2014. **[12]**

4. (Answer any two)

(a) Messers Lion & Co. are maintaining accounts on self-balancing system. On 31.3.2013 the general ledger disclosed the following balances:

Sales ledger adjustment account (Dr.) – ₹ 35,235; Purchases ledger adjustment account (Cr.) – ₹ 15,530.

On scrutinizing the ledgers, the following mistakes were noticed:

(i) A credit purchase of ₹ 4,300 has been credited to the sales ledger adjustment account. In the subsidiary books, the party's account shows a debit balance in the sales ledger and a credit balance in the purchases ledger.

(ii) ₹ 4,750 were due from Mr. X in the sales ledger as against ₹ 7,740 due to him for purchases made and entered in the purchase ledger.

Show the necessary journal entries. **[4]**

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

(c) Write up the Total Debtors Account recording the following transactions for the year ended 31st March, 2014 bringing down the balance on that date: Sales — ₹5,10,000; Purchases —₹3,50,000; Cash received from Debtors — ₹3,87,500; Cash Paid to Creditors — ₹3,42,500; Amount due to suppliers as shown by creditors ledger set off against amount due from the same party as shown by debtors ledger — ₹3,500; Bad Debts previously written off, now recovered— ₹3,250; Bad Debts written off — ₹7,750; Cash received in respect of debit balance in Creditors Account — ₹2,750; Returns Inward — ₹24,750; Bills Received — ₹1,00,000; Returns Outward — ₹3,750; Bills dishonoured — ₹6,250; Discounts Received — ₹7,500; Discounts Allowed — ₹6,250; Cash refunded to the debtors—₹ 1,250.

On 1st April, 2013 the debtors ledger balances were ₹ 45,750 (Dr.) and ₹ 500 (Cr.) and the Creditors Ledger balances were ₹ 42,250 (Cr.) and ₹ 2,750 (Dr.).
On 31st March, 2014 there were no credit balances in the debtors' ledger except those outstanding on 1st April, 2013 and no debit balance in the creditors' ledger. **[4]**

5. (Answer any two)

(a) List the items to be deducted and to be excluded while computing the Contract Cost as per AS – 7. **[4]**

(b) While finalising the Accounts for the year 2012-13 it was realized that XY Ltd. stands to receive ₹ 10 lakh from its customers in respect of sales made in 2012-13 due to price revision granted by the Government.
You are required to advise the Company regarding the treatment of the amount in the Accounts for the year quoting relevant Accounting Standard. **[4]**

(c) Discuss the method of accounting followed by an Educational Institution. **[4]**

6. (Answer any two)

(a) (i) Patang Ltd. wants to re-classify its investments in accordance with AS-13. Decide on the amount of transfer, based on the following information:
A portion of Current Investments purchased for ₹ 60 lakhs, to be reclassified as Long Term Investments, as the Company has decided to retain them. The market value as on the date of Balance Sheet was ₹ 75 lakhs. **[2]**

(ii) Rupa Gadgets Ltd. sends electric ovens costing ₹ 1,300 each to their customers on Sale or Return basis. These are treated like actual sales and recorded through the Sales Day Book. Two months before the end of financial year it sent 150 ovens at an Invoice Price of ₹ 1,600 each, of which 20 ovens are accepted by customers at ₹ 1,400 each. Regarding the rest of the goods sent no further report is available. You are required to give the necessary Journal Entries at the end of the accounting year. **[6]**

(b) On 1st Jan 2014 Mr. A, for the temporary and mutual accommodation of himself and Mr. B, draws upon the latter a bill of exchange at 3 months for ₹2,000. On 4th Jan Mr. A discounts the bill @ 6% p.a. and hands half the proceeds to Mr. B. At maturity Mr. A remits the amount due to Mr. B who meets the bill. Pass Journal entries in the books of both the parties. **[8]**

(c) (i) Munni of Mumbai and Chunni of Chennai entered into a Joint Venture of purchase and sale of Jute and cotton .They agreed to share profits and losses in the ratio 3:2 and also to be entitled to an interest of 10% p.a. (on monthly basis) on Capital invested by each of them .

The following transactions took place:

On 1st July 2014, Chunni purchased 800 bales of Cotton @ ₹ 424 per bale, the brokerage being ₹ 12,800 and despatched to Chunni incurring ₹ 6,400 as freight and insurance.

On 15th July 2014, Munni purchased 1,200 bales of Jute @ ₹ 192 per bale, Brokerage being ₹8 per bale and despached to Munni incurring ₹4,800 as freight and insurance.

On 1st August 2014, Chunni sold 300 bales of Cotton @ ₹ 576 per bale, brokerage being ₹ 16 per bale.
On 1st September 2014, Chunni sold 450 bales of Cotton @ ₹ 580 per bale, brokerage being ₹ 12 per bale.
On 15th August 2014, Munni sold 400 bales of Jute @ ₹ 2,800 per bale, brokerage being ₹ 8 per bale and on 15th September 2014, sold 700 bales of Jute @ ₹ 292 per bale brokerage being ₹4 per bale. Each partner took unsold stock in his hand at cost plus $12\frac{1}{2}$ % on 30th September 2013, on which date venture was closed.

Compute the value of unsold stock held by Munni and that of held by Chunni. **[3+3=6]**

(ii) State the meaning of "Insolvency of Drawee (Acceptor)" in relation to a bill of exchange. **[2]**

7. (Answer any two)

(a) (i) How will you disclose the following Ledger balances in the Final accounts of Ramanuja Bank?

Particulars	₹ in Lakhs
Current Accounts	1,400
Saving Accounts	1,000
Fixed Deposits	1,400
Cash Credits	1,200
Term Loans	1,000
Bills Discounted & Purchased	1,600

Additional information:
Included in the Current Accounts Ledger are accounts overdrawn to the extent of ₹ 500 Lakhs.
One of the Cash Credit account of ₹ 20 Lakhs (including interest ₹ 2 Lakhs) is doubtful.
60% of Term Loans are secured by Government Guarantees, 20% of Cash Credits are unsecured, other portion is secured by Tangible Assets. **[5]**

(ii) List the advantages of adopting Optimized Depreciated Replacement Cost method. **[3]**

(b) (i) The Life Assurance Fund of a Life Insurance Company was ₹86,48,000 on 1.1.2014. The interim bonus paid during the inter-valuation period was ₹1,48,000. The periodical actuarial valuation determined the net liability at ₹74,25,000. Surplus brought forward from the previous valuation was ₹8,50,000. The directors of the company proposed to carry forward ₹9, 31,000 and to divide the balance between the shareholders and policyholders.

Show the Valuations Balance Sheet; the net profit for the valuation period; and the distributions of the surplus. **[6]**

(ii) State the meaning of "Double Insurance". [2]

(c) The Trial Balance of Quick Electric Supply Ltd. for the year ended 31st March 2014 is as below:

Particulars	Dr. (₹ '000)	Cr. (₹ '000)
Share Capital: Equity Shares of ₹ 10 each		125,00
14% Preference Shares of ₹ 100 each		37,50
Patents and Trademarks	626	
15% Debentures		61,75
16% Term Loan		38,25
Land (Additions during the year ₹ 512.50)	31,12.5	
Building (Additions during the year ₹ 12,70)	87,83.5	
Plant & Machinery	142,64.5	
Mains	11,31	
Meters	787.5	
Electrical Instrument	382.5	
Office Furniture	612.5	
Capital Reserve		12,55
Contingency Reserves		30,07.5
Transformers	41,10	
Net Revenue Account		13,37.5
Stock in Hand	30,12.5	
Sundry Debtors	15,61.5	
Contingency Reserve Investments	30,02.5	
Cash & Bank	818.5	
Public Lamps	760	
Depreciation Fund		64,54
Sundry Creditors		16,36
Proposed Dividend		30,25
Total	429,65	429,65

During 2013-2014, ₹ ('000) 25,00 of 14% Preference Shares were redeemed at a Premium of 10% out of proceeds of fresh issue of Equity Shares of necessary amounts at Premium of 10%.

From the above, prepare the Balance Sheet as on 31st March 2014, as per the Schedule III. **[8]**