Paper – 5 - Financial Accounting

Section A is compulsory and answer any 5 questions from Section B

Section A

1. **Answer the following questions (give workings):** **[2×10]**

(a) Calculate the Average Collection Period from the following details by adopting 360 days an year:

Average Inventory	**₹ 10,80,000**	**Gross Profit Ratio**	**10%**
Debtors	**₹ 6,90,000**	**Credit Sales to Total Sales**	**20%**
Inventory Turnover Ratio	**6 Times**	**1 Year**	**360 Days**

Answer:

1. Cost of Goods Sold = Inventory Turnover Ratio× Avg. Inventory = 6×₹10,80,000 = ₹64,80,000
2. Total Sales = Cost of Goods Sold + Gross Profit of 10% on Sales
   = Cost of Goods Sold + (10/90 × Cost of Goods Sold)
   = ₹64,80,000 + (10/90 × ₹64,80,000) = ₹72,00,000
3. Credit Sales = 20% of Total Sales = ₹14,40,000
4. Debtors Turnover Ratio=Credit Sales ÷ Average Debtors = 14,40,000 ÷ 6,90,000 = 2.09 times
5. Avg. Collection Period = 360 ÷ Debtors Turnover Ratio = 360 ÷ 2.09 = 173 days. (approximately)

(b) X and Y are partners having Capitals of ₹ 2,40,000 and ₹ 60,000 respectively and a profit sharing ratio of 4 : 1. Z is admitted for 1/5th share in the profits of the firm and he pays ₹ 90,000 as Capital. Find out the value of the Goodwill.

Answer:

Total Capital of the firm 90,000 × 5/1 = ₹4,50,000 [Taking Z's Capital as base]
Less: Combined Adjusted Capital = ₹3,90,000
[₹2,40,000 + ₹60,000 + ₹90,000]
Hidden Goodwill = ₹60,000

(c) Goods sent to consignee costing ₹ 11,25,000. Consignor's expenses were ₹ 75,000. 1/5th of the goods were broken in transit and it was treated as normal loss. 4/5th of the remaining goods were sold by consignee. Calculate the value of consignment stock.

Answer:

Cost of goods sent on consignment	=	₹11,25,000
Consignor's expenses	=	₹ 75,000
Total Cost	=	₹ 12,00,000
Goods less normal loss	=	$1-\frac{1}{5}=\frac{4}{5}$
Stock sold on consignment	=	$\frac{4}{5}$ of $\frac{4}{5}=\frac{16}{25}$

Value of Closing Stock on consignment = $\frac{1}{5} \times \frac{4}{5} \times 12{,}00{,}000 = \frac{4}{25} \times 12{,}00{,}000$

=₹ 1,92,000

(d) The following particulars are presented by Akash Ltd. (deals in clothing) as on 31.3.2012: Compute the value of stock as per AS 2.

Stock held by Akash Ltd.	**₹**
(Cost Price)	**10,550**
(Net Realisable Value)	**11,500**

The details of such stocks were:

	Cost Price ₹	**Net Realisable Value ₹**
Cotton	**5,600**	**4,960**
Woolen	**3,450**	**4,540**
Synthetic	**1,500**	**2,000**
	10,550	**11,500**

Answer:

As per AS 2, para 21, inventories are usually written-down to net realisable value on an item-by-item basis:

	Cost Price ₹	**Net Realisable ₹**	**Value of Closing Stock ₹**
Cotton	5,600	4,960	4,960
Woolen	3,450	4,540	3,450
Synthetic	1,500	2,000	1,500
	10,550	11,500	9,910

Hence, value of stock will be considered for ₹9,910 as per AS 2.

(e) Explain 'Prior Period Items' as per AS 5.

Answer:

Prior period items (income/expense) arise in the current period as a result of errors/omissions in the preparation of the financial statements, in one or more prior period, are generally infrequent in nature and distinct from changes in accounting estimates.

Prior period items are normally included in the determination of net profit/loss for the current period shown after determination of current period profit/loss. The objective is to indicate the effect of such items in the profit/loss. The separate disclosure is intended to show the impact on the current profit/loss.

(f) From the following information, prepare the Subscription Account for the year ending on March 31, 2012

(i) Subscription in arrears on 31.03.2011 ₹ 4,500

(ii) Subscription received in advance on 31.03.2011 ₹ 3,000

(iii) Amount of Subscription received during 2011-12 ₹ 1,20,000, which includes ₹ 3,000 for the year 2010-11, ₹ 4,500 for the year 2012-13.

(iv) Subscription outstanding ₹ 3,000.

Answer:

Dr. **Subscription A/c** **Cr.**

Particulars	Amount (₹)	Particulars	Amount (₹)
To, Balance b/d	4,500	By, Balance b/d	3,000
To, Income & Expenditure A/c	1,18,500	By, Bank A/c	1,20,000
		By, Balance c/d	
To, Balance c/d		For 2010-11	1,500
For 2012-13	4,500	For 2011-12	3,000
	1,27,500		1,27,500

(g) Safety Life Insurance Co. furnishes you the following information:

Particulars	**Amount (₹)**
Life Insurance fund on 31.3.2012	**1,30,00,000**
Net liability on 31.3.2012 as per actuarial valuation	**1,00,00,000**
Interim bonus paid to policyholders during intervaluation period	**7,50,000**

Compute the Net Profit for the valuation period.

Answer:

Statement showing Net Profit for the valuation period

Particulars	Amount (₹)
Surplus (i.e. Life Insurance Fund on 31.03.2012 – Net Liability on 31.03.2012 as per actuarial fund)	30,00,000
Add: Interim bonus paid	7,50,000
	37,50,000

(h) On 01.01.2012 A and B draw bills on each other at 3 months for ₹5,000 for their mutual accommodation. They discount each other's bill at 8% p.a. and, on maturity, each party honours his own acceptance.
Show the journal entries made in the books of A.

Answer:

In the books of A
Journal

Date	Particulars	L.F.	Debit ₹	Credit ₹
2011 Jan.1	Bills Receivable A/c Dr. To B A/c (Bills accepted by B for 3 months)		5,000	5,000

,,	Bank A/c Dr. Discount A/c Dr. To Bills Receivable A/c (Bill discounted by the bank @8% p.a.)		4,900 100	 1,000
,,	B A/c Dr. To Bills Payable A/c (Bill accepted for 3 months)		5,000	 5,000
April 4	Bills Payable A/c Dr. To Bank A/c (Bill honoured at maturity)		5,000	 5,000

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

Particulars	**Amount (₹)**
Fair Market Value of Plan Assets (beginning of year)	**4,00,000**
Fair Market Value of Plan Assets (end of year)	**5,70,000**
Employer Contribution	**1,40,000**
Benefit Paid	**1,00,000**

Calculate the Actual Return on Plan Assets.

Answer:

The actual return is computed as follows:

Particulars	**Amount (₹)**	**Amount (₹)**
Fair Market Value of Plan Assets (beginning of year)		4,00,000
Fair Market Value of Plan Assets (end of year)		5,70,000
Change in plan assets		1,70,000
Adjusted for		
Employer contributions	1,40,000	
Less: Benefit paid	1,00,000	40,000
Actual return in plan assets		1,30,000

(j) A company undertook repair and overhauling of its machinery at a cost of ₹ 5 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?

Answer:

Size of the expenditure is not the criteria to decide whether subsequent expenditure should be capitalized. As per AS 10 the important question is whether the expenditure increases the expected future benefits from the asset beyond its preassessed standard of performance. Only then it should be capitalized. Since, in this case, only the benefits are maintained at existing level, the expenditure should not be capitalized. If under the circumstances the amount is material, the auditor should qualify his report.

Section B

Answer any 5 questions from the following

2. (a) Compass, Cone and Circle are in partnership sharing profits and losses in the ratio of 3:2:1. The Balance Sheet of the firm as on 31st Dec,2012 was:

Liabilities	Amount ₹	Amount ₹	Assets	Amount ₹	Amount ₹
Capital Accounts: Compass Cone Circle	 40,000 60,000 20,000	 1,20,000	 Machinery (at cost) Less: provision for depreciation	 50,000 8,000	 42,000
Reserve		30,000	Furniture		1,000
Sundry Creditors		60,000	Sundry Debtors Less: Provision for Doubtful Debts	80,000 3,000	 77,000
			Stocks		50,000
			Cash at Bank		40,000
		2,10,000			2,10,000

On 31st March, Cone retired and Compass and Circle continued in partnership, sharing profits and losses in the ratio of 3:2. It was agreed that adjustments were to be made in the Balance Sheet as on 31st March 2013, in respect of the following:

i. **The Machinery was to be revalued at ₹ 45,000;**
ii. **The stock was to be reduced by 2%;**
iii. **The Furniture was to be reduced to ₹ 600;**
iv. **The provision for doubtful debts would be ₹ 4,000;**
v. **A provision of ₹300 was to be made for outstanding expenses.**

The partnership agreement provided that, on the retirement of a partner, goodwill was to be valued at ₹ 24,000 and Cone's share of the same was to be adjusted into the account of Compass and Circle. The profit up to the date of retirement was estimated at ₹ 18,000. Cone was to be paid off in full, Compass and Circle were to bring such an amount in cash so as to make their capital in proportion to the new profit – sharing ratio, subject to the condition that a cash balance of ₹ 20,000 was to be maintained as working capital.

Pass the necessary Journal entries to give effect to the above arrangements and prepare the Partners' Capital Accounts as on 31st March 2013. [8]

Answer:

In the Books of …………
Journal

Date	Particulars	L.F.	Dr. Amount ₹	Cr. Amount ₹
2013 Mar.31	 Reserve A/c Dr. To Compass's Capital A/c To Cone's Capital A/c To Circle's Capital A/c		 30,000	 15,000 10,000 5,000

	(Reserve transferred to the Capital Accounts of the partners in 3 : 2 : 1)			
	Machinery A/c Dr. To Revaluation A/c (Value of the machinery increased on Cone's retirement)		3,000	 3,000
	Revaluation A/c Dr. To Stock A/c To Furniture A/c To Provision for Bad Debts A/c To Outstanding Expenses A/c (Value of the assets reduced on Cone's retirement)		2,700	 1,000 400 1,000 300
	Revaluation A/c Dr. To Compass's Capital A/c To Cone's Capital A/c To Circle's Capital A/c (Profit on revaluation transferred to the Capital Accounts of the partners)		300	 150 100 50
	Compass's Capital A/c Dr. Circle's Capital A/c Dr. To Cone's Capital A/c (Cone's share of goodwill to be adjusted against remaining partners' Capital Accounts in the gaining ratio of 3 : 7 as W.N. 1)		2,400 5,600	 8,000
	Profit and Loss (Suspense) A/c Dr. To Compass's Capital A/c To Cone's Capital A/c To Circle's Capital A/c (Estimated profit transferred to the Capital Account of the partners)		18,000	 9,000 6,000 3,000
	Cone's Capital A/c Dr. To Bank A/c (Payment is made to Cone on his retirement)		84,100	 84,100
	Bank A/c Dr. To Compass's Capital A/c To Circle's Capital A/c (Cash to be brought in by Compass and Circle as per agreement)		46,100	 16,430 29,670

Capital Account

Dr. **Cr.**

Particulars	Compass ₹	Cone ₹	Circle ₹	Particulars	Compass ₹	Cone ₹	Circle ₹
To Cone's Capital	2,400	-	5,600	By Balance b/d	40,000	60,000	20,000
,, Bank (bal. fig.)	-	84,100	-	,, Reserve	15,000	10,000	5,000
,, Balance c/d	78,180	-	52,120	,, Revaluation Profit	150	100	50
				,, Share of profit	9,000	6,000	3,000
				,, Compass's Capital	-	2,400	-
				,, Circle's Capital	-	5,600	-
				,, Bank (bal. fig.)	16,430	-	29,670

	80,580	84,100	57,720	By Balance b/d	80,580	84,100	57,720
					78,180	-	52,120

Working Notes:

1. **Total Value of Goodwill ₹24,000.**

∴ Cone's share of Goodwill = 24,000 x $\frac{2}{6}$ = 8,000 to be adjusted against Compass's and Circle's capital in 3 : 7.

Computation of ratio:

Compass = $\frac{3}{5} - \frac{3}{6} = \frac{3}{30}$ (gain) Circle = $\frac{2}{5} - \frac{1}{6} = \frac{7}{30}$ (gain)

2.

Bank A/c

Dr. **Cr.**

	₹		₹
To Balance b/d	40,000	By Cone's Capital	84,100
,, Profit – increase in cash	18,000	,, Balance c/d	20,000
,, Compass and Circle's Capital (bal.fig.)	46,100	(to be maintained)	
	1,04,100		1,04,100

3. **Total Adjusted Capital of Compass and Cone**

Particulars	₹
Compass's Capital: (40,000 + 15,000 + 150 + 9,000 – 2,400)	61,750
Circle's Capital (20,000 + 5,000 + 50 + 3,000 – 5,600)	22,450
Plus: Total cash to be brought in	46,100
	1,30,300
Combined Adjusted Capital	
Compass's Capital $(1,30,300 \times \frac{3}{5})$	78,180
Circle's Capital $(1,30,300 \times \frac{2}{5})$	52,120

(b) Mandira Ltd. provides depreciation on its plant @ 10% on Reducing Balance Method. On 31st December, 2012, it decides to adopt the Straight Line Method of charging depreciation instead of Reducing Balance Method with retrospective effect from 1st January, 2009 although the rate of depreciation is same.

On 01.01.2012, the plant account stood in the books at ₹1,45,800. On 01.04.2012, Mandira Ltd. sold a plant for ₹28,000 whose written-down value was ₹37,800 on 01.01.2009. On 01.09.2012, a new plant was also purchased for ₹90,000.

Show the Plant Account in the books of Mandira Ltd. for the year 2012 only. [8]

Answer:

In the Books of Mandira Ltd.
Plant Account

Dr. **Cr.**

Date	Particulars	Amount ₹	Date	Particulars	Amount ₹
2012			2012		
Jan. 1	To Balance b/d	1,45,800	Apr. 1	By Depreciation A/c (on plant for 3 months) (W.N. 2)	689
Apr. 1	,, Profit on sale of Plant A/c (W.N. 2)	1,133		,, Bank A/c - Sale proceeds	28,000
Sept. 1	,, Bank A/c - Purchase	90,000	Dec.31	,, Depreciation A/c (W.N. 3)	19,220
				,, Profit and Loss A/c (W.N. 4)	4,704
				,, Balance c/d	1,84,320
		2,36,933			2,36,933
2013					
Jan. 1	To Balance b/d	1,84,320			

Workings:

1. **Book value as on 01.01.2009 of the original plant**

Particulars	₹
$(₹1,45,800 \times \frac{100}{90} \times \frac{100}{90} \times \frac{100}{90})$	2,00,000
Less: Book value of plant on 01.01.2009 sold in 2012	37,800
Book value on 01.01.2009 for the balance plant	1,62,200

2. **Profit on Sale of Machinery**

Particulars	₹
Book value on 01.01.2009	37,800
Less: Depreciation for 2009 @10%	3,780
	34,020
Less: Depreciation for 2010 @10%	3,402
	30,618
Less: Depreciation for 2011 @10%	3,062
	27,556
Less: Depreciation for 2012 @10% for 3 months $\left(2,756 \times \frac{3}{12}\right)$	689
W. D. V. on 01.04.2012	26,867
Sold for	28,000
Profit on Sale	1,133

3. Depreciation for 2012

Particulars	₹
On Balance Plant on ₹1,62,200 @10%	16,220
On New plant Purchased $(₹90,000 \times \frac{10}{100} \times \frac{4}{12})$	3,000
	19,220
On Plant sold (for three months already calculated)	689
Total Depreciation	19,909

4. Adjustment for additional depreciation due to change in method

Particulars	₹	₹	₹
Depreciation on ₹1,62,200 @ 10% for 3 years under Straight Line Method (i.e., 16,220 x 3)			48,660
Depreciation already written – off under Diminishing Balance Method:			
Book value on 01.01.2009 Less: Depreciation for 2009	1,62,200 16,220	 16,220	
Book value on 01.01.2010 Less: Depreciation for 2010	1,45,980 14,598	 14,598	
Book value on 01.01.2011 Less: Depreciation for 2011	1,31,382 13,138	 13,138	
			43,956
			4,704

3. (a) Mr. Dodo draws two bills of exchange on 01.01.2012 for ₹12,000 and ₹20,000. The bill of exchange for ₹12,000 is for two months while the bill of exchange for ₹20,000 is for three months. These bills are accepted by Mr. Toto. On 04.03.2012 Mr. Toto requests Mr. Dodo to renew the first bill with interest at 18% p.a. for a period of two months. Mr. Dodo agrees to this proposal. On 20.03.2012 Mr. Toto retires the acceptance for ₹20,000, the interest rebate, i.e., discount, being ₹200. Before the due date of the renewed bill, Mr. Toto becomes insolvent and only 50 paise in a rupee could be recovered from his estate. You are to give the journal entries in the books of Mr. Dodo. [8]

Answer:

In the Books of Mr. Dodo
Journal Entries

Date	Particulars	L.F.	Debit ₹	Credit ₹
2012 Jan.1	Bills Receivable A/c Dr. To, Mr. Toto A/c (Bills drawn for 2 months)		12,000	 12,000
	Bills Receivable A/c Dr. To, Mr. Toto A/c (Bills drawn for 3 months)		20,000	 20,000
Mar. 4	Mr. Toto A/c Dr. To, Bills Receivable A/c (Bill dishonoured at maturity)		12,000	 12,000

	Mr. Toto A/c Dr. To, Interest A/c (Interest receivable on fresh bill)		360	360
	Bills Receivable A/c Dr. To, Mr. Toto A/c (Bill drawn for 2 months)		12,360	12,360
Mar. 20	Bank A/c Dr. Rebate Allowed A/c Dr. To, Bills Receivable A/c (Bill retired at a rebate of ₹200)		19,800 200	20,000
May 7	Mr. Toto A/c Dr. To, Bills Receivable A/c (First bills dishonoured at maturity)		12,360	12,360
	Bank A/c Dr. Bad Debts A/c Dr. To, Mr. Toto A/c (50% of the amount realised from Toto's estate as he became insolvent)		6,180 6,180	12,360

(b) C Electric Company Ltd. decides to replace its old plant with a modern one with a large capacity. The plant was installed in 1940 at a cost of ₹80 lakhs. The components of materials, labour and overhead are in the ratio 5:3:2. It is ascertained that the costs of material and labour have gone up by 50% and 100%, respectively. The proportion of overheads to total costs is expected to remain the same as before.
The cost of the new plant as per improved design is ₹ 180 lakhs and, in addition, materials recovered from the old plant having value of ₹4,00,000 was used in the construction of the new plant. The old plant was scrapped and sold for ₹15,00,000.
The accounts of the company are maintained under Double Account System.
Show the entries in the books of C Electric Company. [8]

Answer:

In the Books of C Electric Company Ltd.
Journal

Date	Particulars	L. F.	Debit ₹	Credit ₹
	Plant A/c……………………………………….Dr. Replacement A/c…………………………..Dr. To, Bank A/c (Cost spent on the plant including purchase of new plant)		45,00,000 1,35,00,000	1,80,00,000
	Plant A/c……………………………………….Dr. Replacement A/c (Old plant used)		4,00,000	4,00,000
	Bank A/c……………………………………..Dr. To, Replacement A/c (Cash received on sale of old plant)		15,00,000	15,00,000
	Revenue A/c……………………………..…Dr. To, Replacement A/c (Net current cost of replacement transferred i.e. balance of Replacement A/c)		1,16,00,000	1,16,00,000

Working Notes:

1. **Calculation showing the elements of cost of old plant**

Total Cost = ₹80,00,000
Material = ₹80,00,000 × 5/10 = ₹40,00,000
Labour = ₹80,00,000 × 3/10 = ₹24,00,000
Overhead = ₹80,00,000 × 2/10 = ₹16,00,000

2. **Calculation showing the current cost of replacement of old plant**

Material = ₹40,00,000 + 50% of ₹40,00,000 = ₹60,00,000
Labour = ₹24,00,000 + 100% of ₹24,00,000 = ₹48,00,000
Overhead = $2/10^{th}$ or $1/5^{th}$ of total cost = $1/4^{th}$ of the Total Materials and Labour cost = ¼ × (₹60,00,000 + ₹48,00,000) = ₹27,00,000.
∴ Total Current Cost = ₹60,00,000 + ₹48,00,000 + ₹27,00,000 =₹1,35,00,000

3. **Allocation of Current Cost of New plant**

Cost of new plant	₹1,80,00,000
Less: Current cost of old plant replaced	₹1,35,00,000
	₹45,00,000

4. (a) Kush and Ram entered into a joint venture for purchase and sale of electronic goods, sharing profits and losses in the ratio of 3:2. They also agreed to receive 5% commission on their individual sales and the following information was extracted from the records:

July 1, 2012: **Kush purchased goods worth ₹1,90,000 financed to the extent of 90% out of this funds and balance by loan from his father Shyam.**

August 1, 2012: **Kush sent goods costing ₹1,70,000 to Ram and paid ₹1,410 as freight. Ram paid ₹13,410 to Kush.**

October 1, 2012: **Ram sold all the goods sent to him. Kush paid the loan taken from his father, including interest of ₹350.**

All sales, by either party, were made at a uniform profit of 40% above cost. On November 30, 2012, they decided to close the venture by transferring the balance of goods unsold, lying with Kush at a cost of ₹9,000, to a wholesale dealer.

You are required to prepare the Memorandum Joint Venture Account, and Joint Venture with Kush in the books of Ram and Joint Venture with Ram in the books of Kush. They disclosed that goods worth ₹4,000 were taken personally by Kush at an agreed price of ₹5,000. **[10]**

Answer:

Memorandum Joint Venture Account

Dr. **Cr.**

Date	Particulars	Amount ₹	Date	Particulars	Amount ₹
2012 July 1	To Kush - Purchaser 1,71,000 Loan – Purchaser 19,000	1,90,000	2012 Oct. 1 Nov. 30	By Ram – Sale Proceeds (₹1,70,000 + 40%)	2,38,000 5,000

			,,	,, Kush – Stock taken	9,800
Aug. 1	,, Kush – Freight	1,410		,, Kush – Sale Proceeds	
Oct. 1	,, Kush – Interest on Loan	350		(₹1,90,000 – ₹1,70,000	
,,	,, Ram – commission	11,900		– ₹9,000 – ₹4,000)	
	(@ 5% on ₹2,38,000)		,,	= ₹7,000 + 40%	
				,, Stock –	
Nov. 30	,, Kush – Commission	490		(Transferred to	9,000
	(@ 5% on ₹9,800)			wholesale dealer)	
,,	,, Profit on venture:				
	Kush - $\left(\frac{3}{5}\right)$ 34,590				
	Ram - $\left(\frac{2}{5}\right)$ 23,060				
		57,650			
		2,61,800			2,61,800

In the Books of Kush
Joint Venture with Ram

Dr. **Cr.**

Date	Particulars	Amount ₹	Date	Particulars	Amount ₹
2012			2012		
July 1	To Bank A/c		Aug. 1	By Cash A/c	13,410
	(Purchase of Goods)	1,90,000	Nov. 30	,, Stock taken	5,000
Aug. 1	,, Bank A/c (freight)	1,410	,,	,, Stock transferred to	
Oct. 1	,, Bank A/c (Interest on Loan)	350	,,	wholesale dealer	9,000
Nov. 30	,, Commission	490	,,	,, Bank (Sale Proceeds)A/c	9,800
,,	,, Share of Profit	34,590	,,	,, Bank (Final	
				settlement)A/c	1,89,630
		2,26,840			2,26,840

In the Books of Ram
Joint Venture with Kush

Dr. **Cr.**

Date	Particulars	Amount ₹	Date	Particulars	Amount ₹
2012			2012		
Oct. 1	To Commission	11,900	Oct. 1	By Bank (Sale Proceeds)A/c	2,38,000
,,	,, Cash A/c	13,410			
Nov. 30	,, Share of Profit	23,060			
,,	,, Bank (Final settlement)	1,89,630			
		2,38,000			2,38,000

(b) It was decided to make a specific provisions in the accounts for the year ended 31.03.12 for the following doubtful debts after examining the sales ledger of the firm:

A ₹ 1,800; 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 2011 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 31.03.2012, 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. [6]

Answer:

In the Books of ……….

Dr. Bad Debts Account Cr.

Date	Particulars	Amount (₹)	Date	Particulars	Amount (₹)
2012 Mar 31	To, Sundry Debtors A/c (As per W.N. 1)	1,740	2012 Mar 31	By, Provision for Bad Debts A/c	1,740
		1,740			1,740

Dr. Provision for Bad Debts Account Cr.

Date	Particulars	Amount (₹)	Date	Particulars	Amount (₹)
2012 Dec 31	To, Bad Debts A/c	1,740	2011 April 1	By, Balance b/d (As per W.N. 2)	16,960
			2012 Mar 31	By, Profit and Loss A/c (further provision required)	1,080
2012 Dec 31	To, Balance c/d (As per W.N. 3)	16,300			
		18,040			18,040

Workings:

1. Bad Debts

	₹
A: ₹(1,800 – 600)	1,200
D: ₹ (1,380- 840)	540
	1,740

2. Opening Balance of provision for Bad debts

	₹
A:	1,800
B:	300

C:	2,680
D:	1,380
General provision	
(5% of ₹ 2,16,000)	10,800
	16,960

3.Closing Balance of provision for Bad debts

	₹
B:	300
E:	1,300
F:	680
G:	1,020
General provision	
(5% of ₹ 2,60,000)	13,000
	16,300

5. **(a) Doll and Dolly are in partnership sharing profits and losses equally. They keep their books by Single Entry System. No ready figures are available for total sales but they maintain a steady gross profit rate of 25% on sales.**

An abstract of their cash transactions for the year ended 30th June, 2012 is:

Receipts	₹	Payments	₹
Cash in hand	21,600	Salaries	44,000
Receipts from Customers	5,40,000	Rent	8,800
Cash Sales	64,000	Advertising	3,600
		Printing	3,200
		General expenses	38,200
		Payment to Trade Creditors	4,48,000
		Doll's Drawings	8,000
		Cash in hand	71,800
	6,25,600		6,25,600

The following balances are available from their books as on 30th June 2011 and 30th June 2012:

	As on 30.06.2011	As on 30.06.2012
	₹	₹
Stock-in-trade	88,000	1,00,000
Sundry Debtors	?	1,40,000
Sundry Creditors	93,600	74,000
Furniture	12,000	?

Other information:

i. **Discount allowed ₹5,600;**

ii. **Discount earned ₹4,800;**
iii. **Outstanding Printing ₹1,000;**
iv. **Capital of Doll as on 30th June 2011 was ₹8,000 more than Capital of Dolly;**
v. **Provide depreciation on Furniture @ 10% p.a.**

From the above, you are required to prepare:

- **The Trading and Profit and Loss Account for the year ended 30th June 2012, and,**
- **The Balance Sheet as on that date, in the books of Doll and Dolly. [10]**

Answer:

Sundry Creditors Account

Dr. **Cr.**

Particulars	₹	Particulars	₹
To Cash	4,48,000	By Balance b/d	93,600
To Discount Received	4,800	By Purchases (bal.fig.)	4,33,200
To Balance c/d	74,000		
	5,26,800		5,26,800

Sundry Debtors Account

Dr. **Cr.**

Particulars	₹	Particulars	₹
To Balance b/d (bal .fig.)	1,88,000	By Cash	5,40,000
To Sale (W.N. 1)	4,97,600	By Discount Allowed	5,600
		By Balance c/d	1,40,000
	6,85,600		6,85,600

Balance sheet as at 30th June 2011

Liabilities	₹	₹	Assets	₹	₹
Sundry Creditors		93,600	Furniture		12,000
Capital (bal.fig.)			Stock		88,000
Doll (W.N. 2)	1,12,000		Debtors		1,88,000
Dolly(W.N. 2)	1,04,000	2,16,000	Cash		21,600
		3,09,600			3,09,600

Trading and Profit and Loss Account for the year ended 30th June 2012

Particulars	Amount	Amount	Particulars	Amount	Amount
	₹	₹		₹	₹
To Opening Stock		88,000	By Sales:		
To Purchases (Credit)		4,33,200	Cash	64,000	
To Profit and Loss A/c			Credit	4,97,600	
Gross profit transferred		1,40,400			5,61,600
			By Closing Stock		1,00,000
		6,61,600			6,61,600
To Salaries		44,000			
To Rent		8,800	By Trading A/c		
To Advertising		3,600	Gross profit		
To Discount Allowed		5,600	transferred		1,40,400
To General Expenses		38,200	By Discount		4,800
To Printing	3,200		Received		
Add: Outstanding	1,000				

To Dep. On Furniture @10% on ₹12,000		4,200 1,200			
To Capital A/c - Net Profit					
Doll	19,800				
Dolly	19,800	39,600			
		1,45,200			1,45,200

Balance Sheet as at 30th June 2012

Liabilities	₹	₹	Assets	₹	₹
Capital:					
Doll	1,12,000		Furniture	12,000	
Add: Net Profit	19,800		Less: Depreciation	1,200	10,800
	1,31,800		Closing Stock		1,00,000
Less: Drawings	8,000	1,23,800	Sundry Debtors		1,40,000
Dolly	1,04,000		Cash in hand		71,800
Add: Net Profit	19,800	1,23,800			
Sundry Creditors		74,000			
Outstanding Printing		1,000			
		3,22,600			3,22,600

Workings:

1. **Calculation of Cash and Credit Sales**

Particulars	₹
Opening Stock	88,000
Add: Purchases	4,33,200
	5,12,200
Less: Closing Stock	1,00,000
Cost of Goods Sold	4,21,200
Add: Gross Profit (@ $\frac{1}{3}$rd of cost)	1,40,400
Total Sales	5,61,600

Since Cash Sales in ₹64,000, Credit Sales will be ₹4,97,600, i.e. (₹5,61,600 – ₹64,000).

2. **Capital of Doll and Dolly**

Particulars	₹
Total Capital	2,16,000
Less: Differences	8,000
	2,08,000

$\therefore$ Doll - 2,08,000 x $\frac{1}{2}$ = 1,04,000 + 8,000 = ₹1,12,000

Dolly – 2,08,000 x $\frac{1}{2}$ = ₹1,04,000

(b) The Life Assurance Fund of a life Assurance Company was ₹86,48,000 on 31.03.2012. 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 in the ratio of 1:10.
Show:
(i) the Valuations Balance Sheet;
(ii) the net profit for the valuation period; and
(iii) the distributions of the surplus. **[6]**

Answer:
(i)

In the Books of ………….

Valuation Balance Sheet as at 31st March, 2012

Liabilities	Amount (₹)	Assets	Amount (₹)
Net Liability as per actuarial valuation	74,25,000	Life Assurance Fund	86,48,000
Surplus	12,23,000		
	86,48,000		86,48,000

(ii)

Statement showing Net Profit for the valuation period

Particulars	Amount (₹)
Surplus as per Balance Sheet (i.e., Valuation Balance Sheet)	12,23,000
Add: Interim bonus paid	1,48,000
	13,71,000
Less: Surplus at the beginning of the period	8,50,000
	5,21,000

(iii) **Distribution of Surplus**

Net Profit (as calculated)	13,71,000
Less: Surplus to be carried forward	9,31,000
	4,40,000
Policyholder's Shares @ 10/11 [Since the ration 1:10] (₹4,40,000 × 10/11)	4,00,000
Less: Interim Bonus already paid	1,48,000
Amount payable to Policyholders	2,52,000
Shareholder's Shares @1/11 (₹4,40,000 × 1/11)	40,000
Total amount to be distributed	2,92,000

6. (a) The details of the balances owed by customers were as follows as on 1st April 2012:

Particulars	Amount ₹
A	30,000
B (6% considered to be bad; adequate provision maintained)	42,000
C	36,000
Of the customers	7,12,000
	8,20,000
Less: advance by X	40,000
	7,80,000

Sales during the month amounted ₹11,10,000 including a cash sales of ₹2,28,000; of the credit sales ₹52,000 was to X. A returned goods to the extent of ₹12,000 and sent a bill receivable for the balance. A sum of ₹9,000 was received from B and the balance was written-off. On instructions, C's balance was transferred to the creditors ledger. The acceptance of A was dishonoured and noting charges were ₹300. D sent an advance of ₹36,000 for supply of goods. Out of the amount due from "Other Customers" on 1st April, 2012 ₹5,46,000 was received; the customers had earned 2½% discount on the amount paid. Similarly, out of the sale in April, a sum of ₹1,95,000 has been received, earning discount at same rate.
Q, who owed ₹22,000, and H, who owed ₹16,000, turned doubtful; a provision of 50% of the amounts due was created. Other debts were considered all good.

Prepare Total Debtors Account for April 2012. [6]

Answer:

In the General Ledger
Debtors Ledger Adjustment Account

Dr. **Cr.**

Date	Particulars	Amount ₹	Date	Particulars	Amount ₹
2012 Apr. 1	To Balance b/d (30,000 + 42,000 + 36,000 + 7,12,000)	8,20,000	2012 Apr. 1	By Balance b/d - Advanced by X	40,000
Apr. 30	,, Sales (credit) A/c (11,10,000 – 2,28,000)	8,82,000		,, Cash A/c (W.N. 1)	7,86,000
	,, Bills Receivable A/c - Dishonoured	18,000		,, Discount Allowed A/c (W.N. 2)	19,000
	,, Cash A/c – Noting Charges	300		,, Bad Debts (42,000 – 9,000)	33,000
	,, Balance c/d - D	36,000		,, Returns Inwards A/c - by A	12,000
				,, Bills Receivable A/c - by A	18,000
				,, Transfer -C's balance	36,000
				,, Balance c/d	8,12,300
		17,56,300			17,56,300
May 1	To Balance b/d	8,12,300	May 1	By Balance b/d	36,000

Workings:

1. **Amount received from customer**

Particulars	₹
From B	9,000
D (advance)	36,000
Ex – sale before April 1	5,46,000
Ex – sales during April	1,95,000
	7,86,000

2. **Discount Allowed**

@ $2\frac{1}{2}$% on net , i.e. $97\frac{1}{2}(100 - 2\frac{1}{2})$

So, on ₹7,41,000 (5,46,000 + 1,95,000)

$$= ₹7,41,000 \times \frac{2\frac{1}{2}}{97\frac{1}{2}}$$

= ₹19,000

(b) Write note on Project Accounting. **[5]**

Answer:

Project Accounting (sometimes referred to as Job Cost Accounting) is the practice of creating financial reports specifically designed to track the financial progress of projects, which can then be used by managers to aid project management.

Project Accounting differs from standard accounting in that it is designed to monitor the financial progress of a project rather than the overall progress of organizational elements. With Project Accounting, financial reports are specifically created to track the project process. Utilizing Project Accounting provides Project Managers with the ability to accurately assess and monitor project budgets and ensure that the project is proceeding on budget. Project Managers can quickly address any cost overruns and revise budgets if necessary.

Project Accounting also differs from standard accounting in the time period that it is reported. Standard accounting reports financial progress for fixed periods of time, for example, quarterly or annually.

Projects can last from a few days to a number of years. During this time, there may be numerous budget revisions. The project may also be part of a larger overall project. For example, if an organization were constructing a new building that would be the larger project, however telecommunications could be handled as its own project, and as such with a separate project budget.

Costs and revenues that are allocated to projects may be further subdivided into a work breakdown structure (WBS). In utilizing Project Accounting, you have the flexibility to report at any such level and can also compare historical as well as current budgets.

Project Accounting allows companies to accurately assess the ROI of individual projects and enables true performance measurement. Project Managers are able to calculate funding advances and actual versus budgeted cost variances using Project Accounting. As revenue, costs, activities and labours are accurately tracked and measured, Project Accounting provides future benefits to the organization. Future quotes and estimates can be fine-tuned based on past project performance.

Project Accounting can also have an impact on the investment decisions that companies make. As companies seek to invest in new projects with low upfront costs, less risk, and longer-term benefits, the costs and benefit information from a Project

Accounting System provides crucial feedback that improves the quality of such important decisions.

(c) What is Adverse Balance of debtors ledger/creditors ledger in the context of Self Balancing Ledger. [3]

Answer:
Sometimes it may happen that debtors ledger shows a credit balance and creditor ledger shows a debit balance i.e., the adverse balance of debtors ledger and creditors ledger. Usually, credit balance in debtors ledger may happen on account of advance taken from debtors or allowances given to customers for different products after closing the accounts. Similarly, debit balance in creditors ledger may appear on account of excess payment made or goods returned to creditors after closing the accounts etc. Thus, these contra transactions are to be adjusted. But, one must remember that credit balance in one ledger must not be set off against debit balance of another ledger. These should separately be treated.

(d) A company entered into an agreement to sell its immovable property included in the Balance Sheet at ₹ 10 lakhs, to another company for ₹ 30 lakhs. The agreement to sell was concluded on the 31st January while the actual sale deed was registered on 30th April.

Advice the treatment for these transactions. [2]

Answer:
As per para 13 of AS 4, Assets and Liabilities should be adjusted for events occurring after the Balance Sheet date that provide additional evidence to assist the estimation of amount relating to conditions existing at the Balance Sheet Date. Thus, sale and profit on such sale would be recognised i.e. this is an item to be adjusted.

7. **(a) Mayukh Ltd. took a contract to construct a multistoried building for a consideration of ₹ 10,00,000 to be completed within 3 years for which total cost to be incurred is ₹ 8,25,000. The details are:**

Particulars	Year-I (₹)	Year-II (₹)	Year-III (₹)
Total cost incurred	1,75,000	4,00,000	8,25,000
Estimated cost to be incurred for completion	3,50,000	50,000	-
Progress payment to be received	1,25,000	4,50,000	6,00,000
Progress payment received	85,000	2,75,000	1,10,000

Advise the company to prepare the accounts in as per AS – 7. [8]

Answer:
Estimated Profit to be calculated

Particulars	Year- I		Year-II		Year-III	
	₹	₹	₹	₹	₹	₹

Total Contract Price		10,00,000		10,00,000		10,00,000
Less: Cost of Contract						
Incurred	1,75,000		4,00,000		8,25,000	
Will be incurred	3,50,000	5,25,000	50,000	4,50,000	-	8,25,000
Estimated Profit		**4,75,000**		**5,50,000**		**1,75,000**

% of completion of Work:

Year - I	Year-II	Year-III
1,75,000x100/5,25,000	4,00,000x100/4,50,000	8,25,000x100/8,25,000
33 1/3%	89%	100%

Recognition of Revenue and Expenses to be calculated As:

Year	Particulars	At the end of the year	Recognized in earlier years	Recognized in Current years
		₹	₹	₹
I	Revenue (₹ 10,00,000 x33 1/3%)	3,33,333	-	3,33,333
	Less: Expenses incurred	1,75,000	-	1,75,000
	Profit/(Loss)	1,58,333	-	1,58,333
II	Revenue (₹ 10,00,000 x 89%)	8,90,000	3,33,333	5,56,667
	Less: Expenses incurred	4,00,000	1,75,000	2,25,000
	Profit/(Loss)	4,90,000	1,58,333	3,31,667
III	Revenue (₹ 10,00,000 x 100%)	10,00,000	8,90,000	1,10,000
	Less: Expenses incurred	8,25,000	4,00,000	4,25,000
	Profit/(Loss)	1,75,000	4,90,000	(3,15,000)

(b) A company obtained term loan during the year ended 31.03.2012, to an extent of ₹1,300 lakhs for modernization and development of its factory. Building worth ₹240 lakhs were completed and Plant and Machinery worth ₹700 lakhs were installed by 31.03.2012. A sum ₹140 lakhs has been advanced for assets, the installation of which is expected in the following year. ₹220 lakhs has been utilized for Working Capital requirements. Interest paid on the loans of ₹1,300 lakhs during the year 2011-12 amounted to ₹117 lakhs.

Show how the amount of interest will be treated in the accounts of the company. [8]

Answer:

Interest on borrowed Capital which is used for the purpose of acquisition/construction of fixed asset during the period up to the completion stage or acquisition should be added to the gross book value of the concerned fixed assets. As such, the term loan amounting to ₹ 940 (i.e. ₹240 + ₹700) lakhs together with interest of ₹ 84.60 lakhs (shown below) should be added to the gross book value of the fixed asset.

But, advance to supplier for additional assets amounting to ₹ 140 lakhs together with interest of ₹ 12.60 lakhs (shown below) may be treated as capital work-in-progress and the same should be capitalised at a subsequent date.

Similarly, loan taken for working capital purpose amounting to ₹ 220 lakhs and interest on it of ₹ 19.80 lakhs (shown below) should be charged against current year's Profit and Loss Account.

Thus, the whole matter stands as:

Items	Percentage to Total Term Loan	Amount ₹	Amount of Interest ₹
Acquisition of Building and Plant & Machinery	72.31%	940	84.60
Advance to Suppliers	10.77%	140	12.60
Working Capital Loan	16.92%	220	19.80
	100.00%	1,300	117

8. (a) Determine the value of stock on 31st March, 2013 from the following particulars: Stock was valued on 15th April 2013 and the amount came to ₹ 1,00,000.

(a) Sales ₹ 82,000 (including cash sales ₹ 20,000)

(b) Purchase ₹ 10,068 (including cash purchase ₹ 3,980)

(c) Returns inward ₹ 2,000

(d) On 15Th March, goods of the sale value of ₹ 20,000 were sent on sale or return basis to a customer, the period of approval being four weeks. He returned 40% of the goods on 10th April approving the rest, the customer was received on 16th April.

Goods are sold at a profit of 20% on sales. [4]

Answer:

Stock Reconciliation Statement as on 31st March 2013

Particulars	**Amount (₹)**	**Amount (₹)**
Value of Stock as on 15th April 2013		1,00,000
Add: Cost of Goods Sold from 31st March to 15th April :		
Net Sales (₹ 82,000 – ₹ 2,000)	80,000	
Less: Gross Profit @ 20%	16,000	64,000
Add: Cost of goods sent on approval basis (80% of ₹ 12,000)		9,600

		1,73,600
Less: Purchase from 31st March 2013 to 15th April 2013		10,068
Value of stock as on 31st March 2013		1,63,532

(b) From the following figures appearing in the books of Fire Insurance division of a General Insurance Company, show the amount of claim as it would appear in the Revenue Account for the year ended 31st March, 2012 :

Particulars	Direct Business	Re-Insurance
	₹	₹
Claim paid during the year	**46,80,000**	**7,00,000**
Claim Payable — 1st April, 2011	**7,63,000**	**87,000**
31st March, 2012	**8,12,000**	**53,000**
Claims received	**–**	**2,30,000**
Claims Receivable — 1st April, 2011	**–**	**75,000**
31st March, 2012	**–**	**1,13,000**
Expenses of Management	**2,30,000**	**–**
(includes ₹ 35,000 Surveyor's fee and ₹ 45,000 Legal expenses for settlement of claims)		

[6]

Answer:

General Insurance Company

(Abstract showing the amount of claims)

Particulars	**₹ '000**	**₹ '000**
Claims less Re-insurance :		
Paid during the year (W.N. 1)	52,30	
Add : Outstanding claims at the end of the year (W.N. 2)	7,52	
	59,82	
Less : Outstanding claims at the beginning of the year (W.N. 3)	7,75	52,07

Working Notes:

	Particulars	**₹ '000**	**₹ '000**
1.	Claims paid during the year		
	Direct business	46,80	
	Reinsurance	7,00	53,80
	Add : Surveyor's fee	35	
	Legal expenses	45	80

			54,60
	Less : Claims received from re-insurers		2,30
			52,30
2.	Claims outstanding on 31st March, 2012		
	Direct business	8,12	
	Reinsurance	53	8,65
	Less : Claims receivable from re-insurers		1,13
			7,52
3.	Claims outstanding on 1st April, 2011		
	Direct business	7,63	
	Reinsurance	87	8,50
	Less : Claims receivable from re-insurers		75
			7,75

(c) The following information is available from the books of the trader for period 1st January to 31st March 2012:

(i) Total sales amounted to ₹ 1,20,000 including the sale of old furniture for ₹2,400 (book value is ₹7,000). The total cash sales were 80% less than total credit sales.

(ii) Cash collection from Debtors amounted to 60% of the aggregated of the opening Debtors and Credit sales for the period. Discount allowed to them amounted to ₹5,200.

(iii) Bills Receivable drawn during the period totaled ₹12,000 of which bills amounting to ₹6,000 were endorsed in favour of suppliers. Out of these endorsed bills, a bill receivable for ₹1,200 was dishonoured for non-payment, as the party became insolvent and his estate realized nothing.

(iv) Cheques received from customer of ₹12,000 were dishonoured; a sum of ₹1,000 is irrecoverable.

(v) Bad Debts written-off in the earlier year realized ₹5,000.

(vi) Sundry Debtors on 1st January stood at ₹80,000.

You are required to show the Debtors Ledger Adjustment Account in the General Ledger. [6]

Answer:

In the General Ledger
Debtors Ledger Adjustment Account

Dr. **Cr.**

Date	Particulars	Amount ₹	Date	Particulars	Amount ₹

2012 Jan. 1 Mar.31	To Balance b/d ,, General Ledger Adjustment A/c: Sales (W. N. – 1) ,, Bills dishonoured ,, Cheques dishonoured	80,000 98,000 1,200 12,000	2012 Jan. 1 Mar.31	By General Ledger Adjustment A/c: Cash (W. N. – 2) Discount Allowed ,, Bills Receivable ,, Bad debts ,, Balance c/d	 1,06,800 5,200 12,000 2,200 65,000
		1,91,200			1,91,200

Workings:

1. Computation of Credit sales

As per question cash sales were 80% less than credit sales. So, if credit sales are ₹100 cash sales will be ₹20: Total sales (Cash + Credit) will be ₹120.

Total sales (₹1,20,000 – ₹2,400) = ₹1,17,600

$\therefore$ Amount of credit sales will be $\frac{₹1,17,600 \times 100}{120} = ₹98,000$

2. Cash received

Cash received is 60% of opening Debtors plus Credit Sales i.e. ₹80,000 + ₹98,000
= ₹1,78,000

Cash received = $₹1,78,000 \times \frac{60}{100} = ₹1,06,800$