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

(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.

(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.

(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

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

(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.

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

Particualrs	**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.

(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.

(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.

(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?

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]**

(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]**

3. **(a)** Mr. Dodo draws two bills of exchange on 01.01.2012 for ₹12,000 and ₹20,000. The bills 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 become 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]**

(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]**

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]**

(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]**

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]**

(b) The Life Assurance Fund of a life Assurance Company was ₹86,48,000 on 01.01.2012. The interim bonus paid during the inter-valuation period was ₹1,48,000. The periodical actuarial valuation determined the net liability at of ₹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]**

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 bills receivable for the balance. A sum of ₹9,000 was received from B and the balance was written-off. On instructions from Y, C's balance was transferred to B's account in 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 double; a provision of 50% of the amounts due was created. Other debts were considered all good.

Prepare Total Debtors Account for April 2012. **[6]**

(b) Write note on Project Accounting. **[5]**
(c) What is Adverse Balance of debtors ledger/creditors ledger in the context of Self Balancing Ledger. **[3]**

(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]**

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]**

(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]**

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]**

(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]

(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 then 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]