

INTERMEDIATE EXAMINATION

December 2014

P-5(FAC)
Syllabus 2012

Financial Accounting

Time Allowed: 3 Hours

Full Marks: 100

The figures in the margin on the right side indicate full marks.

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

1. Answer the following questions (Give workings):

2×10=20

- (a) A machine costing ₹ 13,75,000 is depreciated on straight line basis assuming 8 years working life and zero residual value. After third year machine's remaining useful life was reassessed at 7 years. Calculate the amount of depreciation charged for 4th year.
- (b) Madhu purchased a machinery on hire purchase basis on 1st April, 2014. ₹ 75,000 was paid immediately and the remaining amount was to be paid in three annual instalments of ₹ 1,00,000 each. Interest rate is 15% per annum. Calculate the cash price.
- (c) Gunnu and Chinu are partners. They are entitled for 9% interest on their capital contributions. The firm allowed ₹ 54,000 towards interest on capital to partners. Calculate the capital contribution of each partner if interest on Gunnu's capital is ₹ 13,500 more than the interest on Chinu's capital.
- (d) State whether following transactions appear in Sales/Purchases Ledger Adjustment Account or not, when books are kept on self balancing ledger system:
 - (i) B/R discounted with bank for ₹ 15,000;
 - (ii) Old bad debts recovered ₹ 1,500;
 - (iii) Cash refunds to customers ₹ 4,500;
 - (iv) Provision made for bad debts ₹ 5,000.
- (e) Ajay of Jaipur sent goods of ₹ 2,50,000 to Vijay of Mumbai on consignment. Ajay paid ₹ 8,500 as railway freight and ₹ 4,240 as insurance. 2% goods are damaged in the Vijay's godown due to normal circumstances. Vijay incurred cartage ₹ 5,140 and selling expenses ₹ 14,700. Calculate the value of stock of unsold 15% of goods sent to Vijay.
- (f) The carrying amount of Plant and Machinery of X Limited on 31.3.2013 was ₹ 80 crores, where as the recoverable amount is ₹ 52 crores. The applicable Income Tax rate is 40%. For Income Tax purposes, the written down value is ₹ 40 crores. Compute the amount of Deferred tax asset/liability on Account of impairment as per AS 28.
- (g) An IT enabled company supplied a software to a client at a fee of ₹ 50 lakhs during the year ended 30-09-2014 and also transferred the ownership. In November 2014, the Management of the company raised a supplementary bill on it's client for ₹ 10 lakhs, stating about additional features of the software supplied. While finalising the Accounts for the year ended 30-09-2014 in December 2014, how would the amount of ₹ 10 lakhs dealt?

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(h) ₹ 3,25,000 is total cost of 6500 units, consignor's expenses are ₹ 65,000, units lost in transit was 700 units and consignee's non-recurring expenses amounted to ₹ 4,300, what will be the value of stock?

(i) Human Life Insurance Company provides the following information:

Life Insurance Fund on 31st March, 2014	₹ 155 Lakhs
Net liability on 31st March as per actuarial valuation	₹ 132 Lakhs
Interim Bonus paid to Policy holders during inter valuation period	₹ 11 Lakhs

Prepare Valuation Balance Sheet.

(j) A loan account remains out of order as on date of Balance Sheet of MODERN Bank. The account has been classified as Doubtful asset (upto 1 year). Details of the account are as under:

Outstanding	₹ 6,73,000
ECGC Coverage	25% (limited to ₹ 1,00,000)
Value of security held	₹ 1,50,000

Compute the necessary provision to be made by the Bank in respect of this particular account.

2. Answer any two questions:

4×2=8

(a) Indicate whether the following items should be treated as ordinary activities, exceptional items arising out of ordinary activities or prior period items within the terms of AS-5:

- Cost ₹ 15,00,000 incurred in terminating production at one of the company's factories.
 - Currency exchange surplus accounting to ₹ 15,000 arising on remittance from an overseas depot.
 - An extra ₹ 2,00,000 contributions by the company to the employee's pension fund.
 - Profit of ₹ 3,00,000 on sale of machinery written-off in a previous year when production of the particular product ceased.
 - Provision for an abnormally large bad debt of ₹ 10,00,000 arising in a trading contract.
- [The turnover of the company is ₹ 1,20,00,000 and profits ₹ 20,00,000.]

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(b) Pass necessary journal entries to rectify the following errors assuming that the errors were detected after the preparation of final accounts:

- Return inward book was undercast by ₹ 18,000.
- Goods purchased for proprietor's use for ₹ 10,000 debited to purchase account.
- ₹ 5,200 paid for freight on machinery was debited to freight account.
- No adjustment entry was passed for an amount of ₹ 15,000 relating to outstanding rent.
- Furniture of ₹ 13,000 purchased from Chandra Furniture House was entered in purchase book.
- ₹ 10,000 received from Mohan has been credited to Sohan.

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(c) From the following particulars, prepare the Bank Reconciliation Statement of Shri Krishan as on 31st March,

- Balance as per Pass Book is ₹ 10,000.
- Bank collected a cheque of ₹ 500 on behalf of Shri Krishan but wrongly credited it to Shri Kishan's A/c (another customer).

- (iii) Bank recorded a Cash deposit of ₹ 1,589 as ₹ 1,598.
- (iv) Withdrawal column of the Pass Book undercast by ₹ 100.
- (v) The credit balance of ₹ 1,500 as on page 5 of the Pass Book was recorded on page 6 as the debit balance.
- (vi) The payment of a cheque of ₹ 350 was recorded twice in the Pass Book.
- (vii) The Pass Book showed a credit for a cheque of ₹ 1,000 deposited by Shri Kishan (another customer of the Bank).

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3. Answer any two questions:

12×2=24

- (a) A company writes off depreciation at 10% p.a. on the diminishing balance. On 1st January, 2011 the machinery account showed a balance of ₹ 1,49,000. It was discovered in 2011 that—

- (i) A heavy repairs effected to plant and machinery account (completed on 30th June, 2009), were debited to the machinery. The amount was ₹ 15,000; and
- (ii) A machine cost ₹ 6,000 was entered in the purchases on 1st October 2009. The expenses on installation, ₹ 400 were debited to General Expenses Account. Necessary corrections were to be made in 2011. On 30th June 2011, a machine which had cost ₹ 20,000 on 1st January, 2009 was disposed of for ₹ 15,000 and a machine costing ₹ 30,000 was installed on the same date, the expenses on installing the same being ₹ 500.

Show Machinery Account for the year ended 31st December, 2011. Please show your working in detail.

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- (b) 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 the 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, 2011 is given below:

<i>Receipts</i>	₹	<i>Payments</i>	₹
Cash in hand	10,800	Salaries	22,000
Receipts from Customers	2,70,000	Rent	4,400
Cash Sales	32,000	Advertising	1,800
		Printing	1,600
		General Expenses	19,100
		Payment to Trade Creditors	2,24,000
		Doll's Drawings	4,000
		Cash in hand	35,900
	<u>3,12,800</u>		<u>3,12,800</u>

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Following balances are available from their books as on 30th June, 2010 and 30th June, 2011.

	As on 30-6-2010	As on 30-6-2011
	₹	₹
Stock in Trade	44,000	50,000
Sundry Debtors	?	70,000
Sundry Creditors	46,800	37,000
Furniture	6,000	?

Other Information:

- (i) Discount allowed, ₹ 2,800.
- (ii) Discount earned, ₹ 2,400.
- (iii) Outstanding Printing, ₹ 500.
- (iv) Capital of Doll as on 30th June, 2010 was ₹ 4,000 more than Capital of Dolly.
- (v) Provide depreciation of Furniture @ 10% p.a.

From the above you are required to prepare in the books of Doll and Dolly:

- (i) The Trading and Profit and Loss Account for the year ended 30th June, 2011 and
- (ii) The Balance Sheet as on the date.

8+4=12

- (c) TUSHAR Ltd. with its Head Office in Delhi invoices goods to its Branches at Mumbai and Kolkata at 20% less than the catalogue price which is cost *plus* 50% with instructions that cash sales are to be made at invoice price and credit sales at catalogue price less discount at 15% on prompt payments. Provision is to be made for discount to be allowed to debtors, at year end on the basis of year's trend of prompt payments. All branch expenses are paid by the Head Office and all branch collections are remitted daily to Head Office.

1. Opening Stock At Branch at its cost ₹ 12,000.
2. Opening Branch Debtors ₹ 10,000.
3. Goods Sent to branch (at cost to H.O.) ₹ 1,10,000.
4. Goods received by Branch till close of the year ₹ 1,27,000.
5. Transfer from Kolkata branch to Mumbai branch at catalogue price ₹ 75,000.
6. Transfer to Kolkata branch from Mumbai branch at catalogue price ₹ 30,000.
7. Goods purchased by Mumbai branch from local suppliers (cost) ₹ 30,000.
- Closing stock in hand at branch out of local purchases (cost) ₹ 6,000.
8. Cash Sales ₹ 74,800.
9. Credit Sales ₹ 1,45,000.
10. Goods returned by Credit Customers to branch ₹ 30,000.
11. Goods returned by Credit Customers directly to H.O. ₹ 15,000.
12. Goods returned by Branch to H.O. ₹ 24,000.
13. Cash remitted by Credit Customers directly to Branch ₹ 45,635.
14. Cash remitted by Credit Customers directly to H.O. ₹ 40,000.

15. Discount Allowed to Debtors ₹ 13,365.
16. Loss of Goods by fire (at invoice price) ₹ 3,000 against which 80% of cost was recovered from the insurance Company.
17. Loss of goods at Branch through normal pilferage (at catalogue price) ₹ 3,000.
18. Branch Expenses: Paid ₹ 9,000, Outstanding ₹ 741.
19. Branch Manager is entitled to a commission @ 6% of net profits after charging such commission.

Required: Prepare Mumbai Branch Stock Account, Mumbai Branch adjustment A/c, Mumbai Branch Expenses A/c and Mumbai Branch Profit & Loss A/c and Mumbai Branch Debtors A/c under Stock & Debtors Method. 12

4. Answer any two questions:

4×2=8

(a) Following information is available from the books of a trader from January 1 to March 31, 2011.

- (i) Total Sales amounted to ₹ 60,000 including the sale of old furniture for ₹ 1,200 (Book Value ₹ 3,500). The total Cash Sales were 80% less than the total Credit Sales.
- (ii) Cash collection from debtors amounted to 60% of the aggregate of the opening debtors and the Credit Sales for the period. Debtors were allowed Cash discounts for ₹ 2,600.
- (iii) Bills Receivable drawn during the three months totalled ₹ 6,000 of which bills amounting to ₹ 3,000 were endorsed in favour of suppliers. Out of these endorsed B/R, a B/R for ₹ 600 was dishonoured for non-payment as the party became insolvent, his estate realizing nothing.
- (iv) Cheques received from Sundry Customers for ₹ 6,000 were dishonoured; a sum of ₹ 500 is irrecoverable, Bad Debts written off in the earlier years realized ₹ 2,500.
- (v) Sundry Debtors, as on 1st January 2011, stood at ₹ 40,000.

You are required to show the Debtors Ledger Adjustments Accounts in the General Ledger. 4

(b) Prepare Total Creditors Account for the year ended on 31.03.2013 from the data given below:

	₹
Creditors Balance on 01.04.2012	38,000
Credit Purchases during the year	2,67,000
Bills payable accepted	62,000
Cash paid to Creditors	1,37,000
B/R endorsed to creditors	16,000
Endorsed B/R dishonoured	3,000
B/P dishonoured	2,000
Purchase returns	11,000
Discount received	6,000
Transfer from Debtors ledger	7,000

Please Turn Over

(c) PCT Ltd. maintains self-balancing ledgers. On 31st March, 2014 the accountant of the company located the following errors in the books of account:

- (i) An amount of 8,700 received from customer Meena was credited to Meenu, another customer.
- (ii) The sales book for December, 2013 was undercast by ₹ 1,000.
- (iii) Goods invoiced at 15,600 were returned to supplier, M/s BPO Ltd., but no entry was made in the books for this return made on 28th December, 2013.

Pass the necessary Journal entries to rectify the above mentioned errors.

4

5. Answer any two questions:

4×2=8

(a) On 25th September, 2013, PRARTHNA Advertising Limited obtained advertisement rights to World Cup Hockey Tournament to be held in Nov./Dec., 2013 for ₹ 520 lakhs.

They furnish the following information:

- (i) The company obtained the advertisements for 70% of available time for ₹ 700 lakhs by 30th September, 2013.
- (ii) For the balance time they got bookings in October, 2013 for 240 lakhs.
- (iii) all the advertisers paid the full amount at the time of booking the advertisements.
- (iv) 40% of the advertisements appeared before the public in Nov. 2013 and balance 60% appeared in the month of December, 2013.

You are required to calculate the amount of profit/loss to be recognized for the month November and December, 2013 as per Accounting Standard-9.

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(b) Priyanshu Constructions obtained a contract for completion of a big factory building. The following details are available in the records kept the year ended 31st March, 2014:

Particulars	₹ in crores
Total Contract Price	45
Works Certified	23
Works not Certified	6
Estimated further cost	21
Progress payment received	20
Progress payment to be received	6

The company seeks your advice and assistance in presentation of accounts keeping in view the requirements of AS-7 "Accounting for Construction Contract".

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(c) Write a note on Internally Generated Computer Software.

4

6. Answer any two questions:

8×2=16

- (a) Jaipur Investment Ltd. hold 1,000 15 per cent Debentures of ₹ 100 each in Udaipur Industries Ltd. as on 1st April, 2010, at a cost of ₹ 1,05,000. Interest is payable on 30th June and 31st December each year. On 1st May, 2010, 500 Debentures are purchased cum-interest at ₹ 53,500. On 1st November, 2010, 600 Debentures are sold ex-interest at ₹ 57,300. On 30th November, 2010, 400 debentures are purchased ex-interest at ₹ 38,400. On 31st December, 2010, 400 Debentures are sold cum-interest for ₹ 55,000.

Prepare Investment Account valuing holding on 31st March, 2011 at cost (applying FIFO method).

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- (b) There was a serious fire in the premises of M/s Fortunate on 1st September, 2011. Their business activities were interrupted until 31st December, 2011, when normal trading conditions were re-established. M/s Fortunate are insured under the loss of profit policy for ₹ 42,000 the period of indemnity being six months.

You are able to ascertain the following information:

- The net profit for the year ended 31st December, 2010 was ₹ 20,000
- The annual insurable standing charges amounted to ₹ 30,000 of which ₹ 2,000 were not included in the definition of insured standing charge under the policy.
- The additional cost of working in order to mitigate the damage caused by the fire amounted to ₹ 600, and, but for this expenditure, the business would have had to shut down.
- The saving in insured charges in consequence of the fire amounted to ₹ 1,500.
- The turnover for the period of four month ended April 30, August 31 and December 31, for each of the years 2010 and 2011 was as under:

	₹	₹	₹
2010	65,000	80,000	95,000
2011	70,000	80,000	15,000

You are required to compute the relevant claim under the terms of the loss of profits policy.

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- (c) X and Y entered into a joint venture for purchase and sale of some household items. They agreed to share profits and losses in the ratio of their respective contributions. X contributed ₹ 10,000 in cash and Y ₹ 13,000. The whole amount was placed in a Joint Bank Account. Goods were purchased by X for ₹ 10,000 and expenses paid by Y amounted to ₹ 2,000. They also purchased goods for ₹ 15,000 through the Joint Bank Account. The expenses on purchase and sale of the articles amounted to ₹ 6,000 (including those met by Y). Goods costing ₹ 20,000 were sold for ₹ 45,000 and the balance were lost by fire.

Prepare Joint Venture Account, Joint Bank Account and the Ventures' Accounts closing the venture.

8

Please Turn Over

7. Answer any two questions:

8×2=16

(a) Some of the items in the Trial Balance of CANHC Bank Limited as on March 31, 2012 were as follows:

	₹		₹
Loans and Advances	71,50,000	Printing and Stationary	5,000
Current Accounts (including Overdrafts of ₹ 15,00,000)	66,00,000	Interest on Saving Bank Deposits	75,000
Bills Discounted and Purchased	19,20,000	Auditor's Fees	5,000
Interest on Fixed Deposits	1,55,000	Interest on Overdrafts	95,000
Interest on Loans	2,25,000	Provision for Doubtful Debts, April 1, 2011	42,000
Discount (subject to unexpired discount ₹ 30,000)	2,01,000	Bad Debts	21,000
Interest on Cash Credits	1,05,000	Provision for Income tax, April 1, 2011	66,000
Commission earned	47,000	Income tax paid for 2011-2012	54,000
Loss on investment	34,000		
Salaries and Allowances	82,000		

Required: Prepare the Profit and Loss Account of the Bank maintaining the provision for Income tax at ₹ 84,000 and Provision for Doubtful Debts at ₹ 52,000 for the year ended March 31, 2012. 8

(b) Following information are provided by the Rashtriya Beema Company for the year ended 31st March, 2014:

- On 1st April, 2013, The unexpired risks reserve was in respect of marine insurance business ₹ 52.50 crores; in respect of fire insurance business ₹ 55 crores and in respect of miscellaneous insurance business ₹ 12.50 crores.
- It is the practice of the company to create reserve at 100% of net premium income in respect of marine insurance policies and at 50% of net premium in respect of fire and miscellaneous insurance policies.
- During the year 2013-14 the following business was conducted:

	(₹ in crores)		
Particulars	Marine	Fire	Miscellaneous
Premium collected from:	₹	₹	₹
1. Insured in respect of policies issued	57	125	30
2. Other insurance companies in respect of risks undertaken	17.5	12.5	10
Premium paid/payable to other insurance companies on business ceded	21.50	16.50	8.50

You are required:

- Pass necessary journal entries relating to unexpired risks reserve.
- Show unexpired risks reserve account (in columnar form) for the year ended 31st March, 2014. 3+5=8

- (c) The Mettur Electricity Company Ltd. decides to replace one of its old plants with a modern one with a larger capacity. The plant when installed in 1950 cost the company ₹ 48,00,000, the components of materials, labour and overhead being in the ratio of 5:3:2.

It is ascertained that the cost of materials and labour have gone up by 40% and 80% 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 ₹ 1,20,00,000 and in addition, materials recovered from the old plant of a value ₹ 4,80,000 have been 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. Indicate how much would be capitalised and the amount that would be charged to revenue. Show journal entries and prepare necessary ledger accounts.