

INTERMEDIATE EXAMINATION

December 2016

**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.

Section-A questions are compulsory. Attempt all of them.

Section- B has eight questions. Attempt any five of them.

Working notes should form part of the respective answers.

Wherever necessary, suitable assumptions may be made and disclosed by way of a note.

Please: (1) Answer all bits of a question at one place.

(2) Open a new page for answer to a new question.

Section – A

(25 Marks)

1. Answer the following questions:

- (a) Choose the most appropriate one from the stated options and write it down (only indicate (A) or (B) or (C) or (D) as you think correct.): 1×5=5
- (i) Any change in the accounting policy relating to inventories which has a material effect in the current or later periods should be disclosed. This is in accordance with the accounting principle of:
- (A) Going Concern
 - (B) Conservatism
 - (C) Consistency
 - (D) Disclosure
- (ii) Depreciation is a process of
- (A) Apportionment
 - (B) Valuation
 - (C) Allocation
 - (D) None of the above
- (iii) AS-9 is related to
- (A) Revenue Recognition
 - (B) Cash Flow Statement
 - (C) Accounting for Fixed Assets
 - (D) Disclosure of Accounting policies

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- (iv) An amount spent in connection with obtaining a License for starting the factory is
- (A) Revenue Expenditure
 - (B) Capital Expenditure
 - (C) Pre-paid Expenditure
 - (D) None of the above
- (v) According to AS-15 (Revised) superannuation scheme which has relevance only to the final salary and number of years of service is
- (A) Defined Benefit Scheme
 - (B) Defined Contribution Scheme
 - (C) Non-Contributory Scheme
 - (D) Both (A) and (B)

(b) Match the following in Column –I with the appropriate in Column –II:

1×5=5

Column I		Column II	
(i)	Non-Performing Assets	(A)	Branch Accounts
(ii)	AS-15 (Revised)	(B)	Consignment Accounting
(iii)	AS-28	(C)	Banking Company
(iv)	Stock and Debtors Method	(D)	Employee Benefits
(v)	Account Sales	(E)	Impairment of Assets
		(F)	Borrowing Cost

(c) State whether the following statements given below are TRUE or FALSE:

1×5=5

- (i) In the case of consignment sales, revenue is to be recognised on sale of goods to a third party.
- (ii) The amount by which the minimum rent exceeds the actual Royalty is known as Excess Workings.
- (iii) Bank Reconciliation Statement is not a part of the process of Accounts.
- (iv) As per AS-2 Inventory is valued at the lower of net realisable value and current replacement cost.
- (v) Retiring a bill under rebate means payment of the bill before due date.

(d) Answer the following questions (Give workings):

2×5=10

- (i) NATARAJ LTD. deals in manufacture of Products P, Q, R and S respectively. It provides the following information with respect to the Closing Stock of these items for the year ended March 31, 2016.

Category of stock	Historical Cost (₹)	Net Realisable value (₹)
P	80,000	59,200
Q	1,03,200	1,02,400
R	60,000	71,000
S	90,000	93,200

Calculate the value of inventories to be shown in the Balance Sheet as on March 31, 2016 as per requirements of AS-2.

- (ii) BHARAT TUSHAR LTD. which depreciates its machinery at 10% p.a. on diminishing balance method, had on 1st April, 2015, ₹29,160, to the debit of Machinery Account. On 31st March, 2016, the company decided to change the method of depreciation to straight line method with effect from 1st April, 2012, the rate of depreciation remaining the same.

Pass the necessary Journal entry on account of change in method of Depreciation.

- (iii) Healthy Life Insurance Ltd. declared a reversionary bonus of ₹ 12 per ₹ 1,000 and gave the policyholders an option to get the bonus in cash for ₹ 5 per ₹ 1,000. Total business of the company is ₹ 15 crores, 40% of the policyholders decided to get bonus in cash.

Pass the necessary journal entries in the Book of Healthy Life Insurance Ltd.

- (iv) P and R are currently partners in a firm sharing Profit/Loss in the ratio of 4:3. A new partner D is admitted and after his admission new Profit/Loss sharing ratio between P, R and D becomes 5:3:2.

What will be the sacrifice ratio of P and R after admission of D?

- (v) MS SHAYANI purchased 10% Debentures in KPC LTD for ₹ 5,20,000 on 1st July, 2015. The face value of these Debentures were ₹ 4,80,000. Interest on Debentures falls due on 30th September and 31st March.

Compute the Cost of Acquisition of the Debentures.

Please Turn Over

Section – B

(75 Marks)

Answer any five questions (carrying 15 Marks each) from Question No. 2 to Question No 9:

2. (a) The following details are extracted from the records of M/S BANDHAN & CO, a trader for the year ended March 31, 2016.

- (i) Total sales amounted to ₹ 1,80,000 including the sale of old Xerox Machine for ₹ 4,800 (Book value ₹ 8,000). The total Cash sales were 20% of the total Credit sales.
- (ii) Collections from debtors amounted to 70% of the aggregate of the opening debtors and Credit sales for the period. Debtors were allowed a cash discount of ₹ 20,000.
- (iii) Bills Receivable drawn during the three months totalled ₹ 30,000 of which bills amounting to ₹ 10,000 were endorsed in favour of suppliers. Out of the endorsed Bills, one bill for ₹ 6,000 was dishonoured for non-payment as the party became insolvent, his estate realised nothing.
- (iv) Cheques received from customers ₹ 8,000 were dishonoured, a sum of ₹ 2,000 was irrecoverable. Bad Debt written off in the earlier years was realised ₹ 11,000.
- (v) Sundry Debtors as on 01.04.2015 stood of ₹ 50,000.

You are required to draw up the **Debtors Ledger Adjustment Account** in the General Ledger.

3+5=8

- (b) VISHAN for mutual accommodation of TITHAN and himself drew upon the latter a three months bill for ₹ 24,000 on 1st July, 2015, which was duly accepted. Vishan discounted the bill at 6% p.a. on 4th July, 2015 and remitted $\frac{1}{2}$ of the proceeds to Tithan.

On 1st August, 2015, Tithan drew and Vishan accepted a bill at 3 months for ₹ 9,600. On 4th August, 2015, Tithan discounted the bill at 6% p.a. and remitted half the proceeds to Vishan. At maturity Vishan met his acceptance, but Tithan failed to meet his and Vishan had to take up. Vishan drew and Tithan accepted a new bill at two months on 4th November, 2015, for the amount due to Vishan plus ₹ 200 as interest. On 1st January, 2016, Tithan became insolvent and a first and final dividend of 40 paises in the rupee was received from his estate on 31st March, 2016.

Note: Days of grace for discounting purposes may be ignored.

Required:

Pass the necessary Journal Entries in the Books of VISHAN.

4+3=7

3. (a) THITAN of Tatanagar and NITAN of Nagpur entered into a Joint Venture to trade together in the buying and reselling of cheap machinery. Profit or loss to be shared in the ratio of 2:3. Thitan undertook to make the purchases and Nitane to effect sales.

NITAN remitted ₹ 1,50,000 to Thitan towards the Joint Venture. Thitan Purchased machinery worth ₹ 1,20,000 and paid ₹ 57,000, for repairs of these, 2.5% as buying commission and ₹ 5,400 for other Sundry expenses. He then sent all the machines purchased and repaired to Nitane of Nagpur.

While taking delivery of the machinery at Nagpur, Nitán incurred ₹ 9,000 towards Railway Freight and ₹ 4,200 towards Octroi. He sold part of the machinery for ₹ 2,10,000 and kept the remaining for himself at an agreed value of ₹ 45,000. Other expenses of Nitán were:

- | | |
|--------------------|--------------|
| (i) Godown rent | ₹ 2,700 |
| (ii) Insurance | ₹ 3,360 |
| (iii) Brokerage | ₹ 4,980; and |
| (iv) Miscellaneous | ₹ 3,840 |

Both the parties decided to close the venture at this stage.

You are required to **prepare** the

- (i) Memorandum Joint Venture Account showing profit of the Business.
- (ii) Joint Venture with Nitán Account in the Books of Thitan.

5+2=7

- (b) The factory premises of AURISHI LTD. were engulfed in the fire on August 16, 2016, as a result of which a major part of stock burnt to ashes.

The stock was covered by policy for ₹ 90,000, subject to Average Clause.

The records at the office of the company revealed the following information:

	₹
Stock on 1st April, 2015	1,15,200
Purchases during the year ended 31st March, 2016	4,80,000
Sales during the year ended 31st March, 2016	6,07,800
Closing stock on 31st March, 2016	95,400
Purchases from 1st April, 2016 to August 16, 2016	1,62,000
Sales from 1st April, 2016 to August 16, 2016	1,84,200

An item of stock purchased in 2014 at a cost of ₹ 30,000 was valued at ₹ 18,000 on 31st March, 2015, due to obsolescence. Half of this stock was sold in July, 2015 for ₹ 7,800; the remaining was valued at ₹ 7,200 on 31st March, 2016. One-fourth of the original stock was sold in June, 2016, for ₹ 4,200. The remaining stock was considered to be worth 60% of the original cost.

Salvaged stock was valued at ₹ 36,000.

You are required to **compute the amount of claim to be** lodged with Insurance Company for Loss of Stock.

3+3+2=8

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4. P, Q, R and T have been carrying on business in partnership sharing profits and losses in the ratio of 4:1:2:3. The following is their Balance Sheet as on 31st March, 2016:

LIABILITIES	₹	₹	ASSETS	₹	₹
Capital Accounts:			Premises		2,80,000
P	7,00,000		Furnitures		30,000
T	3,00,000	10,00,000	Stock-in-Trade		2,00,000
			Trade Debtors	3,50,000	
Trade Creditors		3,00,000	Less: Provision for Bad Debts	50,000	
					3,00,000
			Cash at Bank		1,40,000
			Capital Accounts:		
			Q	2,00,000	
			R	1,50,000	
					3,50,000
		13,00,000			13,00,000

It has been agreed to dissolve the partnership on 1st April, 2016, on basis of following points agreed upon:

- P is to take over Trade Debtors at 80% of Book Value (₹ 3,50,000);
- T is to take over the stock in Trade at 95% of the value; and
- R is to discharge Trade Creditors.
- The realisation is : Premises ₹ 2,75,000 and Furnitures ₹ 25,000.
- The expenses of realisation come to ₹ 30,000.
- Q is found insolvent and ₹ 21,900 is realised from his estate.

Note: The loss arising out of capital deficiency may be distributed following decision in Garner vs. Murray.

You are required to Prepare:

- Realisation Account
- Bank/Cash Account
- Capital Accounts of the Partners.

5+4+5+1=15

5. (a) M/S SHOANI a trader who maintained books under Single Entry system, approaches you with the following details:

	01.04.2015	31.03.2016
Assets and Liabilities:	₹	₹
Trade Creditors	1,57,700	1,24,000
Sundry Expenses Outstanding	6,000	3,300
Sundry Assets(Net)	1,16,100	96,000
Stock-in-Trade	80,400	1,11,200
Cash in hand	29,600	12,000
Cash at Bank	40,000	69,200
Trade Debtors	1,65,300	1,78,700

- (1) Details relating to transactions during the year ended March 31, 2016.

	₹		₹
Discount Credited to Trade Debtors	15,000	Cash purchases	10,300
Sales return	14,500	Cash expenses	95,700
Bad debts	4,200	Paid by cheque for machinery purchased	3,900
Discount allowed by trade creditors	7,000	Household expenses drawn from bank	31,800
Purchases returns	4,000	Cash paid into bank	50,000
Additional capital paid into bank	85,000	Cash drawn from bank	92,400
Realisation from Trade Debtors—paid into bank	6,25,000	Cheque issued to Trade Creditors	6,02,700

- (2) Depreciation was provided 20% of WDV on Sundry Assets for the year.

You are requested to prepare:

- (i) Trading and Profit & Loss Account for the year ended March 31, 2016 and
(ii) Balance Sheet as on that date. 5+3+1+1+1+1=12
- (b) M/S ADHUNA & CO. had a provision for Bad Debts of ₹ 13,000 against their book debts on 1st April, 2015. During the year ended 31st March, 2016, ₹ 8,500 proved irrecoverable and it was desired to maintain the provision for bad debts @5% on Debtors which stood at ₹ 3,90,000 before writing off Bad Debts.

Prepare the provision for Bad Debt Account for the year ended March 31, 2016.

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Please Turn Over

6. (a) YAYATI LTD. having its principal place of business at BENGALURU has a branch at New Delhi. The company sends goods to its branch at cost plus $33\frac{1}{3}\%$ which is the selling price. The following information is given in respect of the branch for the year ended 31st March, 2016.

	₹
Goods sent to Branch (invoice value)	24,00,000
Stock at Branch (01.04.2015) at selling price	1,20,000
Cash Sales	9,00,000
Returns from Customers	30,000
Branch Expenses paid for cash	2,67,500
Branch Debtors' Balance (01.04.2015)	1,50,000
Discounts allowed	5,000
Bad Debts	7,500
Stock at Branch (31.03.2016) at selling price	2,40,000
Branch Debtor's Balance(31.03.2016)	1,82,500
Collections from Debtors	13,50,000
Branch Debtors' Cheques returned dishonoured	25,000

You are required to prepare:

- Branch Stock Account
 - Branch Debtors Account and
 - Branch Adjustment Account to reveal the profit of the Branch for the year ended March 31, 2016. 3+2+4=9
- (b) POORVI STORES LTD, sells goods on hire purchase at Cost plus 25%.

The following information is provided for the year ended March 31, 2016:

		₹
2015		
April 1	Stock with hire purchase customers at hire purchase price	5,00,000
April 1	Stock at shop	1,12,500
April 1	Instalments overdue	30,000
2016		
March 31	Cash received from HP customers during the year	14,75,000
March 31	Purchases for the year	12,50,000
March 31	Instalments overdue	55,000
March 31	Stock at shop	62,500
March 31	Stock with hire purchase customers at hire purchase price	6,25,000

You are required to **prepare Hire Purchase Trading Account** for the year ended March 31, 2016. 5+1=6

7. (a) MADHAVI BUILDCOM LTD. undertook a contract to construct a bridges across river Revathi for ₹ 260 crores on 1st July, 2015. The following details are available in the records kept for the year ended 31st March, 2016.

(Amount in ₹ crores)

Work certified	120
Work to be certified	42
Prudent estimates of additional cost for completion	108

Required:

What is the additional provision for Foreseeable loss which must be made in the Financial Accounts for the year ended 31st March, 2016 as per provisions of AS-7?

1+4=5

- (b) The following are balances and other information extracted from the books of SNEHA IN BANK LTD. as on 31st March, 2016.

	₹ in lakhs		₹ in lakhs
Interest and Discount	4,420	Interest expended	1,360
Other Income	125	Operating Expenses	1,331
Income on Investments	10		

Additional Information:

	₹ in lakhs
(i) Rebate on bills discounted to be provided for	15
(ii) Classification of Advances:	
Standard Assets	2,500
Sub-Standard Assets (Covered by security)	560
Doubtful Assets not covered by security	255
Doubtful Assets covered by security	
For 1 year	25
For 2 years	50
For 3 years	100
For 4 years	75
Loss Assets	100
(iii) Make tax provisions @35% of the profit.	
(iv) Profit and Loss Account (Cr.) brought forward from the previous year	40

Please Turn Over

Required:

- (A) Calculate the amount of Provisions and contingencies
(B) Prepare Profit & Loss Account for the year ended 31st March, 2016. 4+6=10

8. (a) The following details are extracted from the Books of MEGA POWER GENERATION LTD.

- Date of Commercial Operation/Work Completed date : 28th January', 1998
- Beginning of Current Year : 1st April, 2013
- Useful Life : 35 years

Particulars	(Amount in ₹ crores)
Capital Cost at beginning of the year 2013-14	330.00
Additional Capitalisation during the year:	
2013-14	00.00
2014-15	15.70
2015-16	43.76
Value of Freehold Land	17.84
Depreciation recovered upto 2011-12	72.25
Depreciation recovered in 2012-13	8.05

Note: Capital Cost and Accumulated Depreciation at the beginning of the year as per Tariff order, Financial Year 2013-14.

You are required to calculate:

- (i) Average Capital Cost
(ii) Annual Depreciation for the year 2013-14, 2014-15 and 2015-16 as per Tariff Regulations-2009. 2+5=7
- (b) ELITE MARINE INSURANCE CO. LTD. commenced its business on 1st April, 2014. The Company provides you the following information for the year ended March 31, 2016.

Particulars	Amount in ₹ lakh
Outstanding claims on 01.04.2015	98
Claims Paid	350
Reserve for Unexpired Risk on 01.04.2015	780
Legal Expenses regarding claims	12
Agent's Commission	120
Expenses of Management	180
Premiums received	1690
Re-insurance premium paid	75
Interest and Rent received	24
Surveyor Fees	30

The following additional points are also to be taken into account.

- (i) Claims outstanding on 31.03.2016 were ₹ 35 lakh
- (ii) Premium outstanding on 31.03.2016 were ₹ 105 lakh
- (iii) Expenses of management due on 31.03.2016 were ₹ 35 lakh
- (iv) Reserve for unexpired Risk to be maintained at 100% of net Premiums.

Required: Prepare the Revenue Account as per IRDA Regulations for the year ended March 31, 2016.

$5 + \frac{1}{2} + 1 + \frac{1}{2} + \frac{1}{2} + \frac{1}{2} = 8$

9. Write short notes on any three out of the following:

$5 \times 3 = 15$

- (a) Project Accounting
 - (b) Difference between Receipts & Payments Account and Income & Expenditure Account
 - (c) Reserve for Un-expired Risk
 - (d) Minimum Rent/Dead Rent
-