

Paper 5- Financial Accounting

MTP_Intermediate_Syllabus 2012_Dec2015_Set 2

The following table lists the learning objectives and the verbs that appear in the syllabus learning aims and examination questions:

	Learning objectives	Verbs used	Definition
LEVEL B	KNOWLEDGE What you are expected to know	List	Make a list of
		State	Express, fully or clearly, the details/facts
		Define	Give the exact meaning of
	COMPREHENSION What you are expected to understand	Describe	Communicate the key features of
		Distinguish	Highlight the differences between
		Explain	Make clear or intelligible/ state the meaning or purpose of
		Identify	Recognize, establish or select after consideration
		Illustrate	Use an example to describe or explain something
	APPLICATION How you are expected to apply your knowledge	Apply	Put to practical use
		Calculate	Ascertain or reckon mathematically
		Demonstrate	Prove with certainty or exhibit by practical means
		Prepare	Make or get ready for use
		Reconcile	Make or prove consistent/ compatible
		Solve	Find an answer to
		Tabulate	Arrange in a table
	ANALYSIS How you are expected to analyse the detail of what you have learned	Analyse	Examine in detail the structure of
		Categorise	Place into a defined class or division
		Compare and contrast	Show the similarities and/or differences between
		Construct	Build up or compile
		Prioritise	Place in order of priority or sequence for action
Produce		Create or bring into existence	

Paper 5- Financial Accounting

Full Marks: 100

Time allowed: 3 hours

[This paper contains 7 questions. All questions are compulsory, subject to instruction provided against each question. All workings must form part of your answer.]

1. Answer All questions (give workings) [2 ×10=20]

(i) Closing stock for the year ended on 31.03.2014 is ₹75,000 which include stock damaged in a fire in 2012-2013. On 31.03.2013, the estimated net realizable value of the damaged stock was ₹18,000. The revised estimate of net realizable value of damaged goods amounting ₹6,000 has been included in closing stock of ₹75,000 as on 31.03.2014.

Find the value of closing stock to be shown in Profit and Loss Account for the year 2013-2014.

(ii) Long Ltd. has two Debtors Ledger (A-L and M-Z) in use in the self balancing system. Miss B Das , a customer whose account shows a debit balance of ₹6,000 in the (A-L) Debtor's Ledger, marries Mr. S. Sen and her account is required to be transferred to the (M-Z) Debtor's Ledger. Pass the transfer entries.

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

(iv) 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.

(v) On 1st April, "A" purchased 12% debentures in S Ltd. for ₹6,50,000. The face value of these debentures were ₹6,00,000. Interest on debentures falls due on 30th June and 31st December. Compute the cost of acquisition of debentures.

(vi) Salary debited to Income and Expenditure Account for the year was ₹1,15,200 Outstanding salary paid in the beginning of the year and the outstanding salary at the end of the year were ₹14,400 and ₹18,000 respectively. Compute the amount of Salary to be shown in Receipts and Payments Account.

(vii) A second hand car is purchased for ₹4,00,000, the amount of ₹50,000 is spent on its repairs, ₹10,000 is incurred to get the car registered in owner's name and ₹4,000 is paid dealer's commission. What amount will be debited to the car account?

(viii) On 01.01.2015 A sold goods to B on credit for ₹2,000 and drew a bill on B for ₹2,000 for 2 months after date. B accepted it on 03.01.2015 and returned to A. On maturity, the bill was duly honoured by B. Show the entries in the books of B.

(ix) List the reasons why immediate shift to the ODRC Method is not recommended.

(x) List the external sources of indication of impairment of an asset as per AS – 28.

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2. (Answer any two)

(a) BB Ltd. purchased a plant for US \$20,000 on 31st December, 2014 payable after 4 months. The company entered into a forward contract for 4 months @ ₹ 48.85 per dollar. On 31st December, 2014, the exchange rate was ₹47.50 per dollar.
How will you recognize the profit or loss on forward contract in the books of BB Ltd. for the year ended 31st March, 2015. [4]

(b) The financial year of Mr. C ends on 31st March, 2015 but the stock in hand was physically verified only on 8th April, 2015. You are required to determine the value of Closing Stock (at cost) as at 31st March, 2015 from the following information:

- (i) The stock (valued at cost) as verified on 8th April, 2015 was ₹15,000.
- (ii) Sales have been entered in the Sales Day Book only after the dispatch of goods and sales returns only on receipt of goods.
- (iii) Purchases have been entered in the Purchase day Book on receipt of the purchase invoice irrespective of the date of receipt of the goods.
- (iv) Sales as per the sales day book for the period 1st April, 2015 to 8th April, 2015 (before the actual verification) amounted to ₹6,000 of which goods of a sale value of ₹1,000 had not been delivered at the time of verification.
- (v) Purchases as per the purchase day book for the period 1st April, 2015 to 8th April, 2015 (before the actual verification) amounted to ₹6,000 of which goods for purchases of ₹1,500 had not been received at the date of verification and goods for purchases of ₹2,000 had been received prior to 31st March, 2015.
- (vi) In respect of goods costing ₹5,000 received prior to 31st March, 2015, invoices had not been received up to the date of verification of stocks.
- (vii) The gross profit is 20% on sales. [4]

(c) Classify the following between Capital and Revenue Expenditure giving reasons for the same:

- (i) Accrued Dividend or Interest included in the cost price of investment.
- (ii) Lawyer's fees for drafting an agreement of lease of immovable property.
- (iii) Construction of students' common room by college.
- (iv) Amount written off from the cost of Fixed Assets. [4]

3. (Answer any two)

(a) Amit and Sumit are Partners sharing Profit and Losses as 3:2. Their Balance Sheet as on 31st March 2013 is given below:

Equity & Liabilities	₹	Assets	₹
Capital Accounts:		Non-Current Assets:	
- Amit	1,76,000	Land & Building	3,20,000
- Sumit	2,54,000	Investments (Market Value ₹ 55,000)	50,000
General Reserve	30,000	Current Assets:	
Non-Current Liabilities:		Stock	1,10,000
Loan from Puneet	3,00,000	Debtors	
Current Liabilities:		Less: Provision for Doubtful Debts	2,90,000
Employer's Provident Fund	10,000	[3,00,000 – (10,000)]	
Creditors	50,000	Cash at Bank	50,000
Total	8,20,000	Total	8,20,000

They decided to admit Puneet as a new Partner from 1st April 2014 on the following terms -

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- i. Amit will give $\frac{1}{3}$ rd of his share and Sumit will give $\frac{1}{4}$ th of his share to Puneet.
- ii. Puneet's Loan Account will be converted into his Capital.
- iii. The Goodwill of the Firm is valued at ₹3,00,000. Puneet will bring his share of Goodwill in Cash, and the same was immediately withdrawn by the Partners.
- iv. Land and Building was found undervalued by ₹1,00,000.
- v. Stock was overvalued by ₹60,000.
- vi. Provision for Doubtful Debts will be made equal to 5% of Debtors.
- vii. Investments are to be valued at their Market Price.

It was decided that the Capital of the Firm after admission of New Partner would be ₹ 10,00,000. Capital Accounts of Partners will be re-adjusted on the basis of their Profit Sharing Ratio and excess or deficiency will be adjusted in Cash.

Prepare Revaluation Account, Partner's Capital Accounts and Balance Sheet of the firm after admission of New Partner. [12]

(b) (i) Siva Ltd. has two departments X and Y. From the following particulars prepare Departmental Trading Accounts and General Profit and Loss Account for the year ending 31st March, 2014 —

Particulars	Dept. X (₹)	Dept. Y (₹)	Particulars	Dept. X (₹)	Dept. Y (₹)
Opening Stock (at cost)	80,000	48,000	Finished Goods Transferred		
Purchases	3,68,000	2,72,000	- By Dep. Y to X	1,40,000	-
Carriage Inward	8,000	8,000	- By Dept. X to Y	-	1,60,000
Wages	48,000	32,000	Return of Finished Goods		
Sales	5,60,000	4,48,000	- By Dept. Y to X	40,000	-
Purchased Goods Transferred			- By Dept. X to Y	-	28,000
- By Dept. Y to X	40,000	-	Closing Stock		
- By Dept. X to Y	-	32,000	Purchased Goods	18,000	24,000
			Finished Goods	96,000	56,000

Purchased Goods have been transferred mutually at their respective Departmental Purchase Cost and Finished Goods at Departmental Market Price and that 25% of the Closing Finished Stock with each Department represents Finished Goods received from the other Department. [8]

(b) (ii) Chakra Ltd has an equipment purchased 2 years ago for ₹ 3,80,000. The residual value of the asset was estimated to be ₹ 20,000. The total useful life of the asset when purchased was 12 years. The Company charges Straight Line Method of depreciation. Due to Price Adjustment, the cost of the asset is now increased by ₹ 30,000. What is the treatment for the increase in Historical Cost. Advice. [4]

(c) Computer point sells Computer on Hire –Purchase basis at Cost Plus 25%. Terms of Sale are ₹5,000 Down Payment, and eight monthly installments of ₹2,500 for each Computer. The following transactions took place during the Financial Year 2014-15:

- Number of instalments not yet due on 1.4.2014 = 25, Number of installments due but not collected as on 1.4.2014 = 5
- During the financial year, 240 Computers were sold. Out of the above sold Computers during the year, the outstanding position was as follows as on

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31.3.2015.

- Instalments not yet due:
 - Eight Instalment on 50 Computers.
 - Six Instalments on 30 Computers.
 - Two Instalments on 10 Computers.
- Instalments due but not collected: Two Instalments on 5 Computers during the year.
- Two Computers on which five instalments were due and two instalments not yet due were repossessed out of Sales effected during current year. Re-possessed stock is valued at 50% of cost. All instalments have been received.

You are asked to prepare Hire-Purchase Trading Account for the year ending on 31.3.2015. [12]

4. (Answer any two)

(a) List down the benefit accrues out of Self Balancing System. [4]

(b)

On 1st October 2014, the Debit Balances of Debtors Account is ₹ 77,500. Transactions during the 6 months ended on 31st March 2015 were as follows-

Particulars	₹
Total Sales (including Cash Sales ₹ 14,000)	84,000
Payment received from Debtors in Cash	38,000
Bills Receivable received	26,000
Discount Allowed to Customers for prompt payment	1,000
Goods rejected and returned back by the Customer	2,550
Bad Debts Recovered (Written Off two years back)	900
Interest Debited for Delay in Payment	1,250

Out of the Bills Received, Bills of ₹ 8,500 were dishonoured on Due Dates and Noting Charges paid ₹ 250. Bills of ₹ 5,000 were endorsed to the Suppliers. Prepare a Debtors Account for the period ending 31st March 2015 in the General Ledger. [4]

(c) From the following information prepare Bought Ledger Adjustment Account in the General Ledger. [4]

Particulars	₹	Particulars	₹
Opening Balances in Bought Ledger	10,000	Bills Payable Issued	22,400
	96,000	Cash Paid to Suppliers	4,80,000
Purchases	5,40,000	Transfer from Sales Ledger to Bought	20,800
Purchase Returns	20,000	Discount Received	7,200

5. (Answer any two)

(a) List down when revenue from rendering of services is recognised. [4]

(b) An amount of ₹ 9,90,000 was incurred on a contract work upto 31st March. Certificates have been received to date to the value of ₹12,00,000 against which ₹10,80,000 has been received in cash. The cost of work done but not certified amounted to ₹ 22,500. It is estimated that by spending an additional amount of ₹ 60,000 (including provision for contingencies) the work can be completed in all respects in another two months. The agreed contract price of

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work is ₹ 12,50,000. Compute a conservative estimate of the profit to be taken to the P&L A/c as per AS - 7. [4]

- (c) Siva Ltd sold goods worth ₹ 50,000 to Ganga Ltd. Ganga Ltd asked for discount of ₹ 8,000 which was agreed by Siva Ltd. The sale was effected and goods were dispatched. After receiving goods, items worth ₹ 7,000 was found defective, which they returned immediately. They made the payment of ₹ 35,000 to Siva Ltd, whose Accountant booked the Sales for ₹ 35,000. Discuss whether the accounting treatment is correct. [4]

6. (Answer any two)

(a) From the following details, calculate Consequential Loss Claim.

1. Date of Fire: 1st September.
2. Indemnity Period: 6 months.
3. Period of Disruption: 1st September to 1st February.
4. Sum Insured: ₹ 1,08,900.
5. Sales were ₹ 6,00,000 for the preceding financial year ended on 31st March.
6. Net Profit for preceding Financial Year ₹ 36,000 plus Insured Standing Charges ₹ 72000.
7. Rate of Gross Profit 18%.
8. Uninsured Standing Charges ₹ 6,000.
9. Turnover during the Disruption Period ₹ 67,500.
10. Annual Turnover for 12 months immediately preceding the date of fire ₹ 6,60,000.
11. Annual Turnover, i.e for corresponding months (1st Sept to Feb) in the year preceding the date of fire ₹ 2,25,000.
12. Increase in Cost of Working Capital ₹ 12,000 with saving of insured Standing Charges ₹ 4,500 during Disruption Period.
13. Reduced Turnover avoided through Increase in Working Capital ₹ 30,000.
14. Special Clause stipulated- (a) Increase in rate of GP 2% and (b) Increase in Turnover (Standard and Annual) 10%.

[8]

(b) (i) Akash owed ₹ 4,000 on 1st January to Himavan. The following transactions took place between them. It is agreed between the parties that interest at 10% p.a. is to be computed on all transactions.

Date	Particulars	₹
15 th January	Himavan sold goods to Akash	2,230
29 th January	Himavan bought goods from Akash	1,200
10 th February	Akash paid Cash to Himavan	1,000
13 th March	Akash accepted a bill drawn by Himavan for one month	2,000

They agree to settle their complete accounts by one single payment on 15th March. Prepare Akash in Account Current with Himavan and ascertain the amount to be paid. Ignore days of grace. [4]

(b) (ii) Distinguish between Sale and Consignment. [4]

(c) On 1st Aug, 2014, Viru of Delhi sends 500 cases of sunglasses costing ₹600 each to Dhoni of Ranchi, on consignment basis. Viru paid freight and insurance amounting to ₹4,800. Dhoni makes an advance of ₹45,000.

On Dec. 31st, 2014 Dhoni forwards an Account sales to Viru showing:

- 360 cases had been sold for ₹800 each on cash basis.

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- 90 cases had been sold for ₹900 each on credit basis
Dhoni had paid ₹4,400 for carriage and ₹1,400 for rent of godown.

The consignee was entitled to an ordinary commission of 10% and del Credere commission of 5%. Dhoni realized all the due from the customers and remitted the balances due by bank draft with such account sales. You are required to make journal entries, necessary ledger accounts and extracts of final accounts in the books of Dhoni assuming he closes his books on Dec. 31 every year. **[8]**

7. (Answer any two)

(a) (i) Rajatapeeta Bank Ltd. had extended the following credit lines to a Small Scale Industry, which had not paid any Interest since March, 2009:

Particulars	Term Loan	Export Loan
Balance Outstanding on 31.03.2015	₹35 lakhs	₹30 lakhs
DICGC/ECGC cover	40%	50%
Securities held	₹15 lakhs	₹10 lakhs
Realisable Value of Securities	₹10 lakhs	₹8 lakhs

Compute necessary provisions to be made for the year ended 31st March, 2015. **[4]**

(a) (ii) Discuss Electricity Regulatory Commission (CERC). **[4]**

(b) (i) List down the statistical books required to be maintained by the Insurance Company. **[4]**

(b)(ii) Calculate Rebate on Bills discounted as on 31 December, 2014 from the following data and show journal entries:

	Date of Bill	₹	Period	Rate of Discount
(i)	15.10.2014	50,000	5 months	8%
(ii)	10.11.2014	30,000	4 months	7%
(iii)	25.11.2014	40,000	4 months	7%
(iv)	20.12.2014	60,000	3 months	9%

Calculation of Rebate on Bills Discounted. **[4]**

(c) The Revenue Account of a Life Insurance Company showed the life fund at ₹73,17,000 on 31.03.2015 before considering the following items —

Particulars	Amount (₹)
Claims intimated but not admitted	98,250
Bonus utilized is reduction of Premium	13,500
Interest accrued on Investments	29,750
Outstanding Premiums	27,000
Claims covered under Reinsurance	40,500
Provision for Taxation	31,500

Calculate the corrected Life Assurance Fund and do pass the necessary journal entries. **[8]**