

Paper 5- Financial Accounting

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Full Marks: 100

Time Allowed: 3 hours

Section A

1. Answer the following questions

(a) Multiple choice questions:

[5x1=5]

- (i) Which of the following purpose is served from the preparation of trial balance:
 - (a) To check the arithmetical accuracy of the recorded transactions;
 - (b) To ascertain the balance of any ledger account;
 - (c) To facilitate the preparation of final account promptly;
 - (d) All of the above.
- (ii) Survey expenses for marine insurance claim must be
 - (a) Added to claim;
 - (b) Added to legal charges;
 - (c) Added to administrative charges;
 - (d) None of the above.
- (iii) A profit on sale of furniture of a club will be taken to
 - (a) Cash Account;
 - (b) Receipts and Payment Account;
 - (c) Income and Expenditure Account;
 - (d) Profit and Loss Account.
- (iv) Realisation Account is a:
 - (a) Representative Personal Account;
 - (b) Artificial Personal Account;
 - (c) Real Account;
 - (d) Nominal Account.
- (v) Bank shows the provision for income tax under the head
 - (a) Contingency Accounts;
 - (b) Other liabilities and provisions;
 - (c) Contingent liabilities;
 - (d) Borrowings.

Solution:

- (i) — D
- (ii) — A
- (iii) — C
- (iv) — D
- (v) — B

(b) Match the following:

[5x1=5]

	Column 'A'		Column 'B'
1.	Cash Flow Statement	A	AS-13
2.	Unexpired risk revenue	B	Consignment

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3.	Accounting for investment	C	AS-7
4.	Delcredere commission	D	Insurance Companies
5.	Construction contracts	E	AS-3

Solution:

1. — E
2. — D
3. — A
4. — B
5. — C

(c) State whether the following statements are true or false:

[5x1=5]

- (i) Original cost minus scrap value is the depreciated value of an asset.
- (ii) The average clause is applicable when the actual loss is less than the sum assured.
- (iii) Life membership fee may be capitalized and shown in balance sheet in liabilities side.
- (iv) Bad debts are apportioned among departments in the proportion of value of sales of each department.
- (v) A banking company cannot grant any loans or advances on the security of its own shares.

Solution:

- (i) — True
- (ii) — False
- (iii) — True
- (iv) — True
- (v) — False

(d) Answer the following:

[5x2=10]

(i) Calculate the amount of Insurance claim to be lodged based on the following information:

Valuation of stock destroyed by fire	₹ 90,000
Insurance Policy amount (subject to average clause)	₹ 65,000
Value of stock salvaged from fire	₹ 40,000

Solution:

$$\begin{aligned} \text{Total value of Stock before fire} &= 90,000 + 40,000 = 1,30,000 \\ \text{Amount of Insurance claim} &= \frac{\text{Stock destroyed by fire}}{\text{Total Stock before fire}} \times \text{Amount insured} \\ &= \frac{90,000}{13,000} \times 65,000 = ₹45,000 \end{aligned}$$

(ii) New Bank Ltd. Informs you the following:

- **Bill discount commission (unadjusted)** ₹ 21,00,000
- **Rebate on bills discounted as on 1-4-2012** ₹ 2,43,000
- **Rebate on bills discounted as on 31-3-2013** ₹ 2,18,000

Compute the discount to be credited to the profit and loss account of the Bank for the year ended 31-3-2013.

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Solution:

New Bank Ltd.

Rebate on Bill Discount Account

Dr.			Cr.		
Date	Particulars	Amount	Date	Particulars	Amount
31.03.13	To P/L A/c (bal. figu.)	21,25,000	01-04-12	By Balance b/d	2,43,000
31.03.2013	To balance c/d	2,18,000	31-03-13	By Sundry parties	21,00,000
		23,43,000			23,43,000

- (iii) ₹ 90,000 is the annual instalment to be paid for three years (given Present Value of an annuity of ₹ 1 p.a. @ 5% interest is ₹ 2.7232). Ascertain the Cash Price in case of Hire Purchase.

Solution:

Amount of installment	Present Value
1	2.7232
90,000	2.7232 × 90,000
	= ₹2,45,088

- (iv) X Ltd. Furnished the following particulars:
Debtors ledger include ₹ 9,000 due from Pin Top Ltd. whereas creditors ledger include ₹ 5,400 due to Pin Top Ltd. Journalise the above.

Solution:

In the books of X Ltd.

Journal Entry

Date	Particulars	L.F	Debit (₹)	Credit (₹)
	Creditors Ledger Adjustment A/c Dr. To Debtors Ledger Adjustment A/c (Debtors ledger includes 9,000 due from Pin Top Limited whereas creditors ledger include 5,400 due to Pin Top Ltd. adjusted.)		5,400	5,400

- (v) The following information has been extracted from the books of a lessee for the year 20-12-2013:

Particulars	Amount (₹)
Short workings lapsed	8,000
Short workings recovered	12,000
Actual royalty based on output	30,000

Compute the minimum rent.

Solution: Minimum rent = Actual Royalty – Short Workings Recovered
= ₹30,000 – ₹12,000
= ₹18,000

Section-B

Answer any five from the following. Each question carries 15 marks

[5×15=75]

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2. (a) Mr. Gupta commenced business as a Cloth Merchant on 1st January, 2015, with a capital of ₹ 2,000. On the same day, he purchased furniture for cash ₹ 600. The books are maintained by Single Entry. From the following particulars (i) Calculate the cash on hand as on 31-12-2015, (ii) Prepare a Trading and Profit and Loss Account for the year ending 31st December, 2015 and (iii) a Balance Sheet as on that date:

Particulars	₹
Sales (including cash sales of ₹1,400)	3,400
Purchases (including cash purchases of ₹ 800)	3,000
Gupta's drawings	240
Salaries of Staff	400
Bad Debts written off	100
Business Expenses	140
Stock of goods on 31-12-2015	1,300
Sundry Debtors on 31-12-2015	1,040
Sundry Creditors on 31-12-2015	720

Mr. Gupta took cloth costing ₹ 100 from the shop for private use and paid ₹ 40 cash to his son, but omitted to record these transactions in his books. Provide depreciation on furniture at 10 per cent per annum. [12]

Solution:

Dr.		Cash Account		Cr.	
Particulars	Amount ₹	Particulars	Amount ₹		
To Capital	2,000	By Furniture	600		
To Sales	1,400	By Purchases	800		
To Sunders Debts (as per Debtors A/c)	860	By Drawings (240 + 40)	280		
		By Salaries	400		
		By Business Expenses	140		
		By Sundres Credits (as per Creditors A/c)	1,480		
		By Balance c/d	560		
	4,260			4,260	

Dr.		Sundry Debtors Account		Cr.	
Particulars	Amount ₹	Particulars	Amount ₹		
To Sales (3,400 – 1,400)	2,000	By Bad debts	100		
		By Cash (bal. fig.)	860		
		By Balance c/d	1,040		
	2,000			2,000	

Dr.		Sundry Creditors Account		Cr.	
Particulars	Amount ₹	Particulars	Amount ₹		
To Cash (bal. fig.)	1,480	By Purchases (3,000 – 800)	2,200		
To Balance c/d	720				
	2,200			2,200	

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Dr. Trading and P/L Account for the year ended 31st Dec. 2015 Cr.

Particulars	Amount ₹	Particulars	Amount ₹
To Purchases 3,000		By Sales 3,400	
(-) Cloth taken for Private use (100)	2,900	By Clearing Stock 1,300	
To Profit & Loss A/c	1,800		
	4,700		4,700
To Salaries 400		By Trading A/c (G. P.) 1,800	
To Bad debts 100			
To Business Exp. 140			
To Depreciation on furniture 60			
To Net Profit (Transferred to Capital A/c) 1,100			
	1,800		1,800

Balance Sheet as on 31st Dec.2015

Liabilities	Amount ₹	Amount ₹	Assets	Amount ₹	Amount ₹
Capital 2,000			Furniture 600		
(+) Net Profit 1,100			(-) Depreciation (60)		540
	3,100		Stock in Trade		1,300
(-) Drawings (280 – 100) (380)		2,720	Sundry Debtors		1,040
Sundry Creditors		720	Cash		560
		3,440			3,440

(b) BISLA Life Insurance Company furnishes you the following information:

Life insurance fund on 31.03.2012	₹ 1,40,00,000
Net Liability on 31.03.2013 as per Actuarial Valuation	₹ 1,20,00,000
Interim Bonus paid to Policy holders during inter valuation period	₹ 2,50,000

You are required to prepare:

(a) Valuation Balance Sheet

(b) Statement of Net Profit for the valuation period

[3]

Solution:

In the books of BISLA insurance companies Valuation of Balance Sheet as on 31.03.2012

Liabilities	Amount ₹	Assets	Amount ₹
Net liabilities as per actuaries valuation	1,20,00,000	Life Assurance Fund	1,40,00,000
Surplus (B/F)	20,00,000		
	1,40,00,000		1,40,00,000

Statement of Net profit for valuation period

Particulars	Amount ₹
Surplus as per valuation balance Sheet	20,00,000
(+) Interim bonus paid during the year	2,50,000
Net profit for valuation period	22,50,000

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3. (a) P, Q and R are partners sharing profits and losses as 5:3:2. The business is dissolved on 31-12-2014 when the balance sheet stands as below:

		₹			₹
Sundry Creditors		1,00,000	Machinery	50,000	
Capital accounts			Car	10,000	
P	10,000		Stock	60,000	
Q	40,000		Debtors	45,000	
R	20,000	70,000	Cash at bank	5,000	
		1,70,000		1,70,000	

Machinery and stock are sold for ₹ 25,000 and ₹ 18,000 respectively. Car is taken by Q for ₹ 12,000; Debtors realise ₹ 20,000

Deficiency of any partner in the Capital Account is to be met by other partners in profit sharing ratio.

P is insolvent; R can bring in ₹ 5,000 only.

Prepare the accounts in the books of the firm.

[12]

Solution:

Dr.		Realisation Account		Cr.	
Particulars	Amount ₹	Particulars	Amount ₹		
To Sundry assets		By Bank A/c			
Material	50,000	Machinery	25,000		
Car	10,000	Stock	18,000		
Stock	60,000	Debtors	20,000		
Debtors	45,000	By Q Capital A/c (car taken over)	12,000		
		By Loss on realization:			
		P($\frac{5}{10}$)	45,000		
		Q($\frac{3}{10}$)	27,000		
		R($\frac{2}{10}$)	18,000		
	1,65,000			1,65,000	

Dr.		Capital Account			Cr.		
Particulars	P	Q	R	Particulars	P	Q	R
To Reabsation A/c	45,000	27,000	18,000	By Bal b/d	10,000	40,000	20,000
To P Capital A/c	-	21,000	14,000	By Bank A/c	-	-	5,000
To R capital A/c	-	7,000	-	By Capital of Q, R	35,000	-	-
To Realisation A/c - car taken over	-	12,000	-	By Q Capital	-	-	7,000
				By Bank A/c	-	27,000	
	45,000	67,000	32,000		45,000	67,000	32,000

Dr.		Bank Account		Cr.	
Particulars	Amount ₹	Particulars	Amount ₹		
To Balance c/d	5,000	By Creditors A/c	1,00,000		
To Realization A/c	63,000				

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To R Capital A/c	5,000		
To Q Capital A/c	27,000		
	1,00,000		1,00,000

- (b) On 01.04.2012, M/s Singh Bros. had a provision for bad debts of ₹ 6,500 against their book debts. During 2012-13, ₹ 4,200 proved irrecoverable and it was desired to maintain the provision for bad debts @ 4% on debtors which stood at ₹ 1,95,000 before writing off Bad Debts. They also decided to maintain a provision for discount on debtors @2%. Show Provision for Bad Debt Account. [3]

Solution:

Dr.		Provision for bad Debts Account				Cr.	
Date	Particulars	Amount	Date	Particulars	Amount		
31.03.13	To Bad debts A/c	4,200	01-04-12	By Balance b/d	6,500		
31.03.2013	To Balance c/d (1,95,000-4,200)×4%	7,632	31-03-13	By Profit & Loss A/c (further provision required)	5,332		
		11,832			11,832		

4. (a) Mr. X, the consignor, consigned goods to Mr. Y 100 Radio sets valued ₹ 50,000. This was made by adding 25% on cost. Mr. X paid ₹ 5,000 for freight and insurance. 20 sets are lost – in- transit for which Mr. X recorded ₹ 5,000 from the Insurance company.

Mr. Y received remaining goods in good condition. He incurred ₹ 4,000 for freight and miscellaneous expenses and ₹3,000 for godown rent. He sold 60 sets for ₹ 50,000. Show the necessary ledger account in the books of Mr. X assuming that Mr. Y was entitled to an ordinary Commission of 10% on sales and 5% Del Credere Commission on sales. He also reported that ₹ 1,000 were provided bad. [7]

Solution:

In the Books of Mr. X

Dr.		Consignment Account				Cr.	
Particulars	Amount ₹	Particulars	Amount ₹				
To Goods Sent on Consignment A/c	50,000	By Goods Sent on Consignment (loading) A/c	10,000				
To Bank (expenses)	5,000	By Y (Sales)	50,000				
To Y (exp.) Freight & miscellaneous Goodwin rent	4,000 3,000	By Stock on Consignment A/c	12,000				
To Y (Commission) Ordinary @ 10% Del Chedere @5%	5,000 2,500	By Abnormal loss	11,000				
To Stock reserve	2,000						
To Abnormal loss A/c (load)	2,000						
To Profit on Consignment	9,500						
	83,000			83,000			

Dr.		Y Account				Cr.	
Particulars	Amount ₹	Particulars	Amount ₹				
To Consignment (Sales)	50,000	By Consignment (Expenses)	7,000				

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		By Consignment (Commission)	7,500
		By Balance c/d	35,500
	50,000		50,000

Dr.		Abnormal Loss Account		Cr.	
Particulars	Amount ₹	Particulars	Amount ₹		
To Consignment A/c	11,000	By Consignment (loading) A/c	2,000		
		By Bank [Claim]	5,000		
		By Profit & Loss A/c (loss transferred)	4,000		
	11,000			50,000	

Working Notes:

Invoice value of	G. S. C	—	50,000
Cost value of GSC	$50,000 \times 100/125$		= 40,000
G. S. C Load	$= 50,000 - 40,000$		= 10,000
Stock reserve	$= \text{G. S. C load} \times \text{unsold part}$		
	$= 10,000 \times 200/100$		= 2,00,000
Abnormal loss load	$= \text{G. S. C. load} \times \text{abnormal loss part}$		
	$= 10,000 \times 20\% = 2,000$		
Valuation of Abnormal loss and unsold stock			
Total Invoice price		= 50,000	
(+) Expenses price to loss		<u>= 50,000</u>	
		55,000	
(-) Abnormal loss or loss in transit		<u>(11,000)</u>	
(55,000 × 20%)		44,000	
(+) Non – recurring expenses of y (freight & Miscellaneous)		<u>4,000</u>	
Invoice price of 80 sets		<u>48,000</u>	

For unsold stock of 20 sets = $48,000 \times 20/80 = 12,000$

Note: - Since Deceit commission is given to consignee there will not be any entry for bad debts.

(b) A merchant, while balancing his books of accounts notices that the T.B. did not tally. It showed excess credit of ₹ 1,700. He placed the difference to Suspense A/c. Subsequently he noticed the following errors:

- (a) Goods brought from Narayan for ₹ 5,000 were posted to the credit of Narayan's A/c as ₹ 5,500
- (b) An item of ₹ 750 entered in Purchase Returns Book was posted to the credit of Pandey to whom the goods had been returned.
- (c) Sundry items of furniture sold for ₹ 26,000 were entered in the sales book.
- (d) Discount of ₹ 300 from creditors had been duly entered in creditor's A/c but was not posted to discount A/c.

Pass necessary journal entries to rectify these errors. Also show the Suspense A/c.

[8]

Answer: 4 (b)

Rectified Journal entries

Date	Particulars	L.F	Debit	Credit
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			(₹)	(₹)
a)	Narayan A/c To Suspense A/c (Being goods bought from Narayan expenses amount posted to his A/c , now rectified)	Dr.	500	500
b)	Pandy A/c To Suspense A/c (being sundry items of furniture sold wrongly credited to sales also now certified)	Dr.	1,500	1,500
c)	Sales A/c To Disscount received A/c (Being discount from creditors not posted to discount a/c now rectified)	Dr.	26,000	26,000
d)	Suspense A/c To Discount received A/c (being discount from creditors not posted to discount a/c, now rectified)	Dr.	300	300

Dr.		Suspense Account				Cr.	
Date	Particulars	L.F	Amount (₹)	Date	Particulars	L.F	Amount (₹)
	To Difference as per mail balance		1,700		By Narayan		500
	To discount received		300		By Pandey's		1,500
			2,000				2,000

5. (a) From the following Receipts and Payments Account of Town Club for the year ended 31st March, 2015 prepare Income and Expenditure Account.

Receipts	₹	Payments	₹
To balance b/d (1-4-2014)	11,500	By salaries	8,000
To subscriptions	6,500	By rent	1,500
To Interest	500	By stationery	500
To sale of old furniture	800	By Government Bonds	6,000
To Legacies	4,000	By balance c/d (31-3-2015)	7,300

Adjustments:

(a) Subscriptions include 500 received for last year.

(b) Rent includes 300 paid for last year.

(c) Book value of Furniture sold 1,000.

[8]

Solution:

Income and expenditure Account of Town club for the ended 31st March 2015

Dr.		Income and Expenditure Account				Cr.	
Expenditure	Amount ₹	Amount ₹	Income	Amount ₹	Amount ₹		
To salaries		8,000	By Subscriptions (-) last year's Subscription	6,500 (500)	6,000		
To Rent (-) last year's Rent	1,500 (300)	1,200	By Interest		500		
To Matienery		500					
To loss on sale of old		200	By Deficit		3,400		

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furniture (1,000 – 800)			(Excess of expenditure over income)		
		9,900			9,900

(b) Samaresh keeps his ledger on self-balancing system. From the following particulars, you are required to write-up the individual Debtors' Account and the General Ledger Adjustment Account (in Sales ledger) during the month of January 2012:

- (i) Individual Debtor's balances on 1.1.2012;
 A – ₹ 1,530; B – ₹ 1,620; C – ₹ 1,890; D – ₹ 1,170.
- (i) Transactions during the month:
 January
2. Sold goods to A ₹ 1,710;
 9. Received from B on account ₹ 300;
 11. Received from A ₹ 1,500 in full settlement of his balance on 1.1.2012
 12. Sold goods to B ₹ 600;
 14. B returned goods which were damaged-in-transit amounting to ₹ 180;
 18. Received from C ₹ 1,800 and allowed him discount ₹ 90;
 19. Received from A, a bill of exchange for ₹ 1,200 accepted by X payable on 25th January;
 22. Received from B ₹ 900;
 25. A's bill returned dishonoured;
 28. D became insolvent and 30 paise in the rupee was received from his estate in full and final settlement;
 30. Sold goods to C ₹ 1,020.
- [7]

Solution:

**In the Books of Samaresh
 In sales Ledger
 Debtors Ledger Adjustment Account**

Dr.			Cr.		
Date	Particulars	Amount ₹	Date	Particulars	Amount ₹
31 st Jan 2012	To Sales ledger Adj A/c : Cash Discount allowed Returns inward Bills received Bad debts By Bal c/d	 4,851 120 180 1,200 819 3,570	1 st Jan 2012	By Balance b/d By Sales ledger Adj A/c: Sales B/R Dishonored	 6,210 3,330 1,200
		10,740			10,740
			1 st Feb	By Balance b/d	3,570

Dr.			Cr.		
A Account					
Date	Particulars	Amount ₹	Date	Particulars	Amount ₹
1 st Jan 2012	To Balance b/d	1,530	11 st Jan 2012	By Cash	1,500
2 nd Jan	To Sales	1,710		By Discount allowed/c	30

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25 th jan	To B/R (Dishonour)	1,200		By B/R A/c	1,200
				By Balance c/d	1,710
		4,440			4,440

Dr.		B Account				Cr.
Date	Particulars	Amount ₹	Date	Particulars	Amount ₹	
1 st Jan 2012	To Balance b/d	1,620	9 th Jan 2012	By Balance b/d	300	
12 th Jan	To Sales A/c	600	14 th Jan	By Return inwards	180	
				By Cash	900	
				By Balance c/d	840	
		2,220			2,220	

Dr.		C Account				Cr.
Date	Particulars	Amount ₹	Date	Particulars	Amount ₹	
1 st Jan 2012	To Balance b/d	1,890	18 th Jan 2012	By Cash A/c	1,800	
	To Sales	1,020		By Discount allowed	90	
				By Balance c/d	1,020	
		2,910			2,910	

Dr.		D Account				Cr.
Date	Particulars	Amount ₹	Date	Particulars	Amount ₹	
1 st Jan 2012	To balance b/d	1,170	28 th Jan 2012	By cash	351	
				By Bad debts	819	
		1,170			1,170	

Workings:

a) Total Debtors on 01.01.2013	= 1,530 + 1,620 + 1,890 + 1,170 = 6,210
b) Total Sales	= 1,710 + 600 + 1020 = 3,330
c) Total Cash received	= 300 + 1,500 + 1,800 + 900 + 351 = 4,851
d) Total Discount allowed	= 30 + 90 = 120
e) Return inwards	= 180
f) Bad debts	= 819
g) B/R Dishonored	= 1,200
h) Total Drs. On 31-01-2012	= 1,710 + 840 + 1,020 = 3,570

6.(a) 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

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	(₹)	(₹)
Claim paid during the year	46,70,000	7,00,000
Claim Payable - 1 st April, 2011	7,63,000	87,000
31 st March, 2012	8,12,000	53,000
Claims received	--	2,30,000
Claims Receivable – 1 st April, 2011	--	65,000
31 st March, 2012	--	1,13,000
Expenses of Management (includes ₹ 35,000 surveyor's fee and ₹ 45,000 legal expenses for settlement of claims)	2,30,000	--

[12]

Solution:

General Insurance Company (Abstract showing the amount of claim)

Particulars	(₹) '000	(₹) ' 000
Claim less reinsurance: - Paid during the year	5,220	
Add: outstanding claims at the end of the year	752	
	5,972	
Less: Outstanding claims at the beginning of the year	(785)	
Claims		5,187

Working Notes: -

Particulars	(₹) '000	(₹) ' 000
W. N: - 1		
Claims paid during the year: -		
Direct	4,670	
Reinsurance	700	
Add: surveyor's expenses	35	
Add: Legal expenses	45	
	5,450	
Less: Claims received from re-insurer	(230)	5,220
W. N: - 2		
Claims outstanding on 31-03-2012:		
Direct Business	812	
Re-insurance	53	
	865	
Less: Claims receivable from re-insurance	(113)	752
W. N: - 3		
Claims outstanding on 01-04-2011: -		
Direct Business	763	
Reinsurance	87	
	850	
(-) Claims receivable for reinsurance	(65)	785

- (b) A company purchased some machineries for ₹1,00,000 on 1st April, 2007. It charges depreciation @ 10% p.a. on reducing balance method every year. On 30th September 2011, a part of the machinery was sold for ₹14,000, the original cost of the machine was

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₹ 20,000. Calculate the profit or loss on sale of machinery if the company closes its books on 31st March every year. [3]

Solution:

Calculation of Profit or Loss on Sale of part of Machinery: -

	₹
Cost of machinery on 01-04-2007	20,000
Less: Depreciation @ 10% on 31-03-2008	(2,000)
Value on 01-04-2008	18,000
(-) Depreciation @ 10% on 31-03-2009	(1,800)
Value on 01-04-2009	16,200
(-) Depreciation @ 10% on 31-03-2010	(1,620)
Value on 01-04-2010	14,580
(-) Depreciation @ 10% on 31-03-2011	(1,458)
Value on 01-04-2011	13,122
(-) Depreciation @ 10% on 30.09.2011 for 6 th months $(13,122 \times 10\% \times 6/12)$	(656)
Value at the time of sale on 30.09.11	12,466
Profit on sale (bal. fig)	1,534
Sales value	14,000

7. (a) On April 1, 2008 Chandra Transport Company purchased a mini truck from S.K. Motors on hire purchase system. The terms were that they would pay ₹ 1,00,000 down on same date and the balance was payable in three annual instalments. First installment amounted to ₹74,000 was payable on 31-3-2009, second ₹ 93,000 on 31-3-2010 and third ₹84,000 on 31-3-2011. Interest is charged @ 12% per annum. Rate of depreciation is 20% on written down value.

You are required to calculate the total cash price and prepare

(i) S.K. Motors Account and

(ii) Mini-Truck Account in the Books of Chandra Transport Company. [8]

Solution:

Working Note: -

Calculation of cash price:

Down payment	= 1,00,000
1 st Installment	= 74,000
2 nd Installment	= 93,000
3 rd Installment	= 84,000

(Based on Back calculation method Let the cash price be	- 100
(+) Interest	- 12
Installment	<u>112</u>

WN 1

112	→	84,000
12	→	9,000
84,000 – 9,000	=	75,000

WN – 2

112	→	(93,000 + 75,000)
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$$\begin{array}{rcl} 12 & \rightarrow & ₹ 18,000 \\ (93,000 - 18,000) & = & 75,000 \end{array}$$

WN - 3

$$\begin{array}{rcl} 112 & \rightarrow & (74,000 + 75,000 + 75,000) \\ 12 & \rightarrow & ₹ 24,000 \\ (74,000 - 24,000) & = & 50,000 \end{array}$$

Cash Price: -

Down payment	= 1,00,000
1 st installment	= 50,000
2 nd installment	= 75,000
3 rd Installment	= <u>75,000</u>
Total cash price	<u>3,00,000</u>

Analysis Statement: -

Particulars	Cash price	Interest	Installment	Dep. @ (WDV 20%)
Cash Price - 3,00,000				
(-) down payment (1,00,000)				
2,00,000				
(-) 1 st Installment (50,000)	50,000	24,000	74,000	60,000
1,50,000				
(-) 2 nd installment (75,000)	75,000	18,000	93,000	48,000
75,000				
(-) 3 rd Installment (75,000)	75,000	9,000	84,000	38,400
Nil				

In the Books of Chandra Transfer company: - SK Motor Company

Dr.			Cr.		
Date	Particulars	Amount ₹	Date	Particulars	Amount ₹
01-04-08	To Bank A/c	1,00,000	01-04-08	By Mini-Truck a/c	3,00,000
31-03-09	To Bank A/c	74,000		By interest a/c	24,000
	To Balance c/d	1,50,000			
		3,24,000			3,24,000
31-03-10	To Bank	93,000	31-03-10	By Balance b/d	1,50,000
	To Balance c/d	75,000		By Interest A/c	18,000
		1,68,000			1,68,000
31-03-11	To Bank a/c	84,000	01.04.10	By Balance b/d	75,000
				By Interest A/c	9,000
		84,000			84,000

Dr.			Cr.		
Mini Truck Account					
Date	Particulars	Amount ₹	Date	Particulars	Amount ₹
01-04-08	To S. K. Motor a/c	3,00,000	31-03-09	By Depreciation a/c	60,000
				By Balance c/d	2,40,000
		3,00,000			3,00,000
01-04-09	To Bal b/d	2,40,000	31-03-10	By Depreciation a/c	48,000

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				By balance c/d	1,92,000
		2,40,000			2,40,000
01-04-10	To bal b/d	1,92,000	31-03-11	By Depreciation	38,400
				By Balance c/d	1,53,600
		1,92,000			1,92,000
01-04-11	To Balance b/d	1,53,600			

(b) Vasu took a mine on lease from Vamsi at a royalty of ₹12,500 a year. Each year's excess of minimum rent over royalties is recoverable during the first three years of lease. In the event of strike and minimum rent not being reached, it was provided that the actual royalties earned for the year would fulfill all rental obligations.

The output for the first four years was as follows:

1st year – 2000 tons

2nd year – 2500 tons

3rd year – 4000 tons

4th year – strike (2400 tons)

Prepare Royalties Account, Short workings account and Vamsi account in the books of Vasu. [7]

Solution:

Royalties Table

Year	Output in tons	Royalties @ 4 per ton	Minimum Rent	Short Workings	Surplus	Short workings recouped	Short workings in recouped transfer to p/l a/c	Amount paid to landlord
1	2,000	8,000	12,500	4,500	-	-	-	12,500 (MR)
2	2,500	10,000	12,500	2,500	-	-	-	12,500 (MR)
3	4,000	16,000	12,500	-	3,500	3,500	3,500	12,500 (R-SWR)
4	2,400 (Strike)	9,600	9,600	-	-	-	-	9,600 (R)

In the Books of Vasu (Lessee)

Dr.			Cr.		
Royalties Account					
Date	Particulars	Amount ₹	Date	Particulars	Amount ₹
1 st year	To Vansi A/c	8,000	1 st year	By Production A/c	8,000
		8,000			8,000
2 nd Year	To Vansi A/c	10,000	2 nd Year	By Production A/c	10,000
		10,000			10,000
3 rd Year	To Vansi A/c	16,000	3 rd Year	By Production A/c	16,000
		16,000			16,000
4 th Year	To Vansi A/c	9,600	4 th Year	By Production A/c	96,000
		9,600			9,600

Dr.			Cr.		
Short Workings Account					
Date	Particulars	Amount ₹	Date	Particulars	Amount ₹
1 st year	To Vamsi A/c (arrival)	4,500	1 st year	By bal c/d	4,500
		4,500			4,500
2 nd Year	To Bal b/d	4,500	2 nd Year	By Bal c/d	7,000

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	To Vamsi A/c (arrival)	2,500			
		7,000			7,000
3 rd Year	To Bal b/d	7,000	3 rd Year	By Vamsi (recovered)	3,500
				By P/L A/c (irrecauped)	3,500
		7,000			7000

Dr.		Vamsi Account (Lesser)				Cr.	
Date	Particulars	Amount ₹	Date	Particulars	Amount ₹		
1 st year	To bank A/c	12,500	1 st year	By Royalties A/c	8,000		
				By Short working a/c	4,500		
		12,500					12,500
2 nd Year	To Bank A/c	12,500	2 nd Year	By Royalties A/c	10,000		
				By Short working a/c	2,500		
		12,500					12,500
3 rd Year	To Short workings recovered a/c	3,500	3 rd Year	By Royalties A/c	16,000		
	To Bank	12,500					
		16,000					16,000
4 th year	To Bank A/c	9,600	4 th year	By Royalties a/c	9,600		
		9,600					9,600

8. (a) A Head Office sends goods to its Branch at selling price which is arrived at faster adding 33 1/3% to cost price and all expenses are met by the Branch out of remittance from Head Office. All collections by Branch are sent to Bank in the account of Head Office.

The following particulars are available in respect of the Branch for the year ended 31st March, 2013:

	₹
Stock as on 31st March, 2012 (At selling Price)	32,000
Goods from H.O	1,80,000
Cash sales paid into Bank	1,30,680
Credit Sales	38,400
Debtors (on 31st March, 2012)	8,540
Cash collections from Debtors sent to Bank	36,340
Expenses	24,200
Deficiency in Branch Stock on actual stock taking	600

You are required to show the necessary accounts in the books of Head office recording the above transactions for the year ended 31st March 2013. [12]

Answer: 8. (a)

In the Books of head Office: -

Dr.		Branch Stock Account				Cr.	
Date	Particulars	Amount ₹	Date	Particulars	Amount ₹		
01-04-12	To Bal b/f	32,000	31-03-13	By Bank (Cash Sales)	1,30,680		
				By Branch debtors			

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				(credit sales)	38,400
31-03-13	To Goods sent	1,80,000	,	By Stock Deficiency	600
	To Branch			By balance c/f	42,320
		2,12,000			2,12,000

Dr.		Goods Sent to Branch Account		Cr.	
Particulars	Amount ₹	Particulars	Amount ₹		
To Branch Stock adj. A/c	45,000	By Branch Stock A/c	1,80,000		
To trading A/c (B/F)	1,35,000				
	1,80,000				1,80,000

Dr.		Branch Stock Adjustment Account		Cr.	
Particulars	Amount ₹	Particulars	Amount ₹		
To Stock Deficiency (load)	150	By Balance b/f (load on opening stocks)	8,000		
To Branch P/L A/c (B/F)	42,270	By Goods sent to Branch	45,000		
To Balance c/f (load on closing stock)	10,580				
	53,000				53,000

Dr.		Branch Debtors Account		Cr.	
Particulars	Amount ₹	Particulars	Amount ₹		
To Balance b/f	8,540	By Bank (collection)	36,340		
To Branch Stock a/c (Sales)	38,400	By Balance c/f (bal. fig)	10,600		
	46,940				46,940

Dr.		Stock Deficiency Account		Cr.	
Particulars	Amount ₹	Particulars	Amount ₹		
To Branch Stock a/c	600	By Stock Adjustment a/c	150		
		By branch P/L a/c (Bal. fig)	450		
	600				600

Dr.		Branch Profit & Loss Account		Cr.	
Particulars	Amount ₹	Particulars	Amount ₹		
To Branch expenses	24,200	By Stock Adjustment a/c	42,270		
To Stock Deficiencies	450				
To general P/L A/c (Bal. fig)	17,620				
	42,270				42,270

- (b) P Ltd. acquires 2000, 12% Debenture of T Ltd. on 1-4-2012 at ₹ 105 Cum-interest (full value of debentures ₹ 100). Interest is paid on 30th June and 31st December every year. Accounts are closed on 31st December 2012. Ascertain the amount of interest and cost of debentures. [3]

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Solution:

Cost of Investments:

Total payment to be made (2,000 × 105)	= 2,10,000
Less: including of interest to be excluded. (2,00,000 × 12% × 3/12)	= <u>(600)</u>
Cost of Investment	= <u>2,04,000</u>

∴ Cost of Debenture	= 2,04,000
Interest	= 6,000

9. Write short notes on any three of the following

[3×5=15]

- (a) Accounting Cycle;
- (b) Normal Loss and Abnormal Loss in Consignment;
- (c) Weighted average rate of depreciation in electricity companies;
- (d) Difference between Realisation A/c and Revaluation A/c.

Solution:

(a) Accounting Cycle:

When complete sequence of accounting procedure is done which happens frequently and repeated in same direction during an accounting period, the same is called an accounting cycle.

Steps/phases of Accounting Cycle:

a) Recording of Transaction:

As soon as a transaction happens it is at first recorded in subsidiary book.

b) Journal: -

The transactions are recorded in journal chronologically.

c) Ledger: -

All journals are posted into ledger chronologically and in a classified manner.

d) Trial balance:

After taking all ledger accounts closing balances, a trial balance prepared at the end of the period for the preparation of financial statements.

e) Adjustment entries: -

All the adjustment entries are to be recorded properly and adjusted accordingly before preparing financial statements.

f) Adjusted trial balance:

An adjusted trial balance may also be prepared.

g) Closing Entries: -

All the nominal accounts are to be closed by transferring to trading account and profit & Loss account.

h) Financial statements: -

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(d) Difference between Realisation A/c and Revaluation A/c

Basis	Realization A/c	Revaluation A/c
1. Time factor	It is prepared at the time of dissolution of the firm.	It is prepared at the time of admission, retirement and death of the partner.
2. Recording of Assets and liabilities	It record the book value and the realized value of assets and liabilities	It records increase or decrease in the value of assets and liabilities
3. Expenses	It contains an entry for the expenses of dissolution	It doesn't contain any entry for the expenses.
4. Effect	It records the effect of realization of various assets and payments of various liabilities. After opening this account all. The account are closed	It records the effect of revaluation of assets and liabilities. The firm continues after opening this account.
5. Purpose	It main purpose is to realize the assets of the firm and to utilize this amount in payment of liabilities and distribute profit or loss due to this effect among the partners.	Its main purpose is to revalue the assets and liabilities of the firm on admission, retirement or death of the partner. The profit or loss thus, revealed is distributed among the partners.