

Paper-5: FINANCIAL ACCOUNTING

Time Allowed: 3 Hours

Full Marks : 100

Whenever necessary, suitable assumptions should be made and indicate in answer by the candidates.

Working Notes should be form part of your answer

Section A is compulsory and answer any 5 questions from Section B

Section A

1. (A). Choose the right answer of the following alternatives (give working where it is necessary): [18 x 1]
- (a) Rectification of Errors are first entered in –
- (i) Journal Proper
 - (ii) Subsidiary Books
 - (iii) Trial Balance
 - (iv) Ledger
- (b) Salaries paid ₹ 4,500 is shown on credit side of Trial Balance. The debit side of Trial Balance will be –
- (i) Short by ₹ 4,500
 - (ii) Excess by ₹ 4,500
 - (iii) Short by ₹ 9,000
 - (iv) Excess by ₹ 9,000
- (c) Net realizable value is –
- (i) Estimated selling price
 - (ii) Estimated Cost Price plus Marketing cost
 - (iii) Estimated Selling price less cost incurred in order to make sale.
 - (iv) Estimated Selling price plus cost incurred in order to make sale.
- (d) Provision for depreciation Account is created by debiting to
- (i) Machinery Account
 - (ii) Profit & Loss Account
 - (iii) Profit & Loss Appropriation Account
 - (iv) None of these
- (e) Opening and Closing balance of debtors are ₹ 30,000 & ₹40,000 respectively, Cash collected from debtors ₹ 2,40,000. Discount allowed is ₹15,000 for prompt payment. Bad Debts ₹ 10,000. The total goods sold on credit are _____.
- (i) ₹ 2,55,000
 - (ii) ₹ 2,45,000
 - (iii) ₹ 2,95,000
 - (iv) ₹ 2,75,000
- (f) Rohan & Sohan are partners in a firm sharing profits & losses in the ratio 3 : 1. A partner Mohan is admitted and he brought ₹40,000 as goodwill. New profit sharing ratio of all the partners is equal. The amount of goodwill to be shared by old partners is:
- (i) Equally ₹ 20,000 each
 - (ii) Rohan ₹ 30,000 & Sohan ₹10,000
 - (iii) Rohan ₹ 40,000
 - (iv) Rohan received ₹ 50,000 & Sohan paid ₹ 10,000

- (g) Where is "Loss on Issue of shares" shown in Financial Statements?
- Contingent Liability
 - General Reserve
 - Other Non-Current Assets
 - None of these
- (h) Premium on redemption of Debenture is a –
- Personal Account
 - Real Account
 - Nominal Account
 - Suspense Account
- (i) Which of the following is not a contingent Liability
- Claim against enterprises not acknowledged as debt
 - Guarantee given in respect of third parties
 - Liability in respect of bills discounted
 - Penalty imposed by excise officer for violation of provisions of central Excise Act
- (j) A firm of builders spent ₹ 4, 00,000 for purchasing a plot of land and erected its own office over 1/4th of the site. The remaining area was developed for sale to public. The expenditure incurred for development is :
- Capital
 - Revenue
 - Deferred Revenue
 - None of the above
- (k) Match the followings:
- | A | | B | |
|----|--------------|----|------------------|
| 1. | Goodwill | 1. | Non-depreciable |
| 2. | Land | 2. | Non-cash expense |
| 3. | Called up | 3. | Intangible |
| 4. | Depreciation | 4. | Capital |
- (1,4), (2,3), (3,2), (4,1)
 - (1,2), (2,3), (3,4), (4,1)
 - (1,4), (2,2), (3,1), (4,3)
 - (1,3), (2,1), (3,4), (4,2)
- (l) PQR Ltd. held an average inventory of finished goods of ₹ 40,000 (CP) with an inventory turnover ratio of 5. If the gross profit is 25% on the cost of goods sold. What is the total sale during the year?
- ₹ 2,00,000
 - ₹ 2,50,000
 - ₹ 1,25,000
 - ₹ 2,40,000
- (m) Which of the following item of cost is not a part of inventory
- Storage expenses
 - Normal wastages
 - Inward freight
 - Customs duties
- (n) When interest on own debentures becomes due it will be credited to
- Profit & Loss Account
 - Own Debentures Account
 - Debentures Interest Account

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(iv) Interest on own Debentures Account

(o) The General Manager is entitled to a commission of 10% on net profit after charging the commission of Works Manager. The Works Manager is entitled to a commission of 5% on the net profits after charging the commission of General Manager. The profit before charging any commission is ₹ 7,500. The commission of the Work Manager to the nearest rupee will be:

- (i) ₹ 321
- (ii) ₹ 333
- (iii) ₹ 337
- (iv) ₹ 326

(p) X and Y are Partners with capital of ₹9,000 and ₹10,000 respectively. Z is admitted into the firm for 1/3rd share of profit and he brings ₹12,000 as his share of capital. How much will be the Goodwill of the firm :

- (i) ₹ 5,000
- (ii) ₹ 6,000
- (iii) ₹ 10,000
- (iv) ₹ 12,000

(q) If for redemption of preference Share capital of ₹ 1,00,000. 5,000 equity share of ₹ 10 each are issued at a discount of 10%, the amount to be transferred to capital redemption reserve fund will be-

- (i) ₹ 60,000
- (ii) ₹ 50,000
- (iii) ₹ 55,000
- (iv) ₹ 45,000

(r) Deep Ltd. issued 1,00,000 7% debentures of ₹ 100 each at a discount of 4%, redeemable after 5 years at a premium of 6%. Loss on issue of debenture.

- (i) ₹ 10,00,000
- (ii) ₹ 6,00,000
- (iii) ₹ 16,00,000
- (iv) ₹ 4,00,000

(B) Fill in the blanks of the following:

[7x1]

- (i) A company cannot redeem preference shares unless they are _____ paid up.
- (ii) Unclaimed dividend is shown under _____ head in the Balance Sheet of a banking company.
- (iii) Tax deducted at source, from interest on investment is shown under _____ in Schedule III.
- (iv) Selling Commission is apportioned among departments in the ratio of _____ of each department.
- (v) By products should be valued as lower of cost and _____.
- (vi) When minimum rent is more than the Royalty, the amount paid to landlord is the _____.
- (vii) Where hire vendor reckons the profit on the basis of installment received, the method is known as _____.

Solution:

(A)

- (a) - (i)
- (b) - (iii)
- (c) - (iii)
- (d) - (ii)

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(e) - (iv)

Dr.		Sundry Debtors Account		Cr.	
Particulars	Amount (₹)	Particulars	Amount (₹)		
To, Balance b/d	30,000	By, Discount allowed A/c	15,000		
By, Credit Sales (b.f.)	2,75,000	By, Bad Debts A/c	10,000		
		By, Cash Sales – (collected from debtors)	2,40,000		
		By, Closing Debtors	40,000		
	3,05,000		3,05,000		

(f) –(iv)

Mohan's share of goodwill (1/3) = 40,000

Therefore, total goodwill = 40,000 x 3 = 1,20,000

Sacrificing Ratio: Rohan = $3/4 - 1/3 = \frac{9-4}{12} = 5/12$ (Sacrificing ratio)

Sohan = $1/4 - 1/3 = \frac{3-4}{12} = -1/12$ (gaining ratio)

Rohan Received = $5/12 \times 1,20,000 = ₹ 50,000$

Sohan Paid = $1/12 \times 1,20,000 = ₹ 10,000$

(g) - (iii)

(h) – (iii)

(i) – (iv)

(j) – (ii)

(k) – (iv)

(l) – (ii)

Inventory Turnover Ratio = $\frac{\text{Cost of goods sold}}{\text{Average Inventory}}$ i.e. $\frac{\text{Cost of goods sold}}{40,000} = 5$

∴ Cost of Goods Sold = Rs. 40,000 x 5 = ₹ 2,00,000

Sales = Cost of Goods Sold + Gross Profit = ₹ 2,00,000 + 25% of ₹ 2,00,000 = ₹ 2,50,000.

(m)– (i)

(n) – (iv)

(o) – (iv)

Profit before charging commission amounted to ₹ 11,500. Since both the General Manager and Works Manager take commission @ 10% and 5% respectively. Since both the General Manager and Works Manager take commission @ 10% and 5%, respectively, after charging their respective commissions, total commission will be 15% (after charging such commission)- which means 15/115 of the said profit.

Thus, General Manager will get = ₹ 7,500 × $\frac{10}{115} = 652$

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And, Works Manger will get $= ₹ 7,500 \times \frac{5}{115} = 326$

(p) - (i)

Share of profit of X : Y = 1: 1

New profit sharing ratio X:Y: Z = 1:1:1

$1/3^{\text{rd}} = 12,000$

$\therefore 1 = 36,000$

Hence, Goodwill = { 36,000 – (9,000 + 10,000 + 12,000) }
= ₹ 5,000

(q) - (iii)

Amount received from issue of share:

$(5,000 \times 10) - \{ (5,000 \times 10) \times 10\%$

$= 50,000 - 5,000 = 45,000$

Amount transferred to capital Redemption Reserve = ₹ (1,00,000 – 45,000) = ₹ 55,000

(r) - (i)

Amount received for issue of 7% Debenture at a 4% discount:

$(1,00,000 \times 100) - \{ (1,00,000 \times 100) \times 4\%$

$= 1,00,00,000 - 4,00,000 = ₹ 6,00,000$

Now redeemable after 5 years at 6% premium :

$(1,00,000 \times 100) + \{ (1,00,000 \times 100) \times 6\%$

$= 10,00,000 + 6,00,000$

$= ₹ 16,00,000$

Hence, loss on issue of debenture = ₹ (16,00,000 – 6,00,000) = ₹ 10,00,000

(B)

- (i) Fully
- (ii) Other Liabilities And Provision
- (iii) Other Current Liabilities
- (iv) Sales
- (v) Realizable
- (vi) Shortworking
- (vii) Cash Received basis profit

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SECTION B

2. Fill in the blanks of following Trading , Profit and Loss and Balance Sheet by using the Ratio

Dr. Trading and Profit & Loss Account for the year ended 31.03.2014 Cr.

Particulars	Amount (₹ in Lakhs)	Amount (₹ in Lakhs)	Particulars	Amount (₹ in Lakhs)	Amount (₹ in Lakhs)
To, Opening Stock		-	By , Sales		
			- Cash Sales	-	
To, Purchase (Baln. fig)		-	- Credit Sales	_____	-
To, Gross Profit c/d (40% of Sales)		-	By, Closing Stock		-
		112			112
To, Other Expenses		25	By, Gross Profit b/d		-
To, Depreciation					
To , Net Profit (10% on sales)		5			
		-			

Balance Sheet as 31.03.2014

Liabilities	Amount (₹ in Lakhs)	Amount (₹ in Lakhs)	Assets	Amount (₹ in Lakhs)	Amount (₹ in Lakhs)
Share Capital (Baln. fig)		-	Fixed Assets	-	
			Less: Depreciation	_____5	-
Reserve and Surplus		-	Current Assets:		
Debenture		-	Closing Stock	-	
Sundry Creditors		-	Sundry Debtors	-	
			Cash	_____	
		40			40

Other Information:

- (i) Debtors Turnover Ratio 2 months
- (ii) Creditors Turnover Ratio 1.5 months
- (iii) Inventory Turnover Ratio 2 months
- (iv) Current Ratio 2.5 months
- (v) Debenture to Equity Share Capital 10%
- (vi) Opening Stock was less than the Closing Stock by ₹ 4 lakhs
- (vii) The ratio of Cash Sales to Credit Sales 16:9
- (viii) Depreciation was charged on Fixed Asset at 20%.
- (ix) No dividends were declared during the year. Ignoring taxation.
- (x) Other expenses included the interest on debenture.

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Solution:

Application of Ratios for computing missing figure

(i)	Sales	Since GP Ratio and NP Ratio are 40% and 10% of Sales respectively, Other Expenses debited to P&L Account = 40% - 10% = 30% of Sales. Since Other Expenses + Depreciation debited in P&L A/c = (₹ 25 + ₹ 5) Lakhs = ₹ 30 lakhs, Sales = $30 \div 30\%$ =	₹ 100 lakhs
(ii)	Gross Profit	40% of Sales =	₹ 40 lakhs
(iii)	Net Profit	10% of Sales =	₹ 10 lakhs
(iv)	Credit Sales	Cash Sales to Credit Sales = 16:9 Hence, Credit Sales = Total Sales $\times \frac{9}{25}$ = ₹100 $\times \frac{9}{25}$ =	₹ 36 lakhs
(v)	Closing Stock	To find closing stock, average stock value is required. Average Stock $\text{COGS} \times 2 \text{ months} \div 12 \text{ months} = (\text{Sales} - \text{GP}) \times 2 \div 12 = 60 \times 2 \div 12 = ₹ 10 \text{ lakhs}$ Average Stock = (Opening Stock + Closing Stock) $\div 2 = ₹ 10 \text{ lakhs}$. Opening Stock = Closing Stock - 4 lakhs on substituting. (Closing Stock - 4 + Closing Stock) $\div 2 = 10$; Hence, Closing Stock = Therefore, Opening Stock = 12 - 4 = ₹ 8 lakhs.	₹ 12 lakhs
(vi)	Debtors	Credit Sales $\times 2 \text{ months} \div 12 \text{ months} = ₹ 36 \times 2 \div 12 =$	₹ 6 lakhs
(vii)	Creditors	Credit Purchases $\times 1.5 \text{ months} \div 12 \text{ months} = ₹ 64 \times 1.5 \div 12$	₹ 8 lakhs
(viii)	Current Assets	Current Ratio = 2.5; CA \div CL = 2.5; Hence, CA = 2.5 CL. Since CL = Creditors = ₹ 8 lakhs, on substitution, CA = 2.5 \times 8 lakhs =	₹ 20 lakhs
(ix)	Cash	₹ 20 - (₹ 6 + ₹ 2) =	₹ 2 lakhs
(x)	Fixed Assets	Depreciation \div Depreciation Rate = ₹ 5 lakhs \div 20% = Net Block = Gross Block - Depreciation = ₹ 25 lakhs - ₹ 5 lakhs = ₹ 20 lakhs	₹ 25 lakhs
(xi)	Debentures	To find Debentures, we have to find out Capital Employed. Capital Employed = Fixed Assets + Net Working Capital = ₹ 20 + ₹ (20 - 8) = ₹ 32 lakhs Again, Capital Employed = Debt + Equity = Debenture + (Capital + R & S) ₹ 32 lakhs, of which P&L = ₹ 10 lakhs. Hence, debentures + Share Capital = ₹ 22 lakhs. Since Debentures to Share Capital = 10%, Debentures = ₹ 22 $\times \frac{10}{110} =$	₹ 2 lakhs

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Dr.	Trading and Profit & Loss Account for the year ended 31.03.2014				Cr.
Particulars	Amount (₹ in Lakhs)	Amount (₹ in Lakhs)	Particulars	Amount (₹ in Lakhs)	Amount (₹ in Lakhs)
To, Opening Stock		8	By , Sales		
			- Cash Sales	64	
To, Purchase (Baln.fig)		64	- Credit Sales	36	100
To, Gross Profit c/d (40% of Sales)		40	By, Closing Stock		12
		112			112
To, Other Expenses		25	By, Gross Profit b/d		40
To, Depreciation					
To , Net Profit (10% on sales)		5			
		10			
		40			40

Balance Sheet as 31.03.2014

Liabilities	Amount (₹ in Lakhs)	Amount (₹ in Lakhs)	Assets	Amount (₹ in Lakhs)	Amount (₹ in Lakhs)
Share Capital((Baln.fig)		20	Fixed Assets	25	
Reserve and Surplus		10	Less: Depreciation	5	20
Debenture		2	Current Assets:		
Sundry Creditors		8	Closing Stock	12	
		40	Sundry Debtors	6	
			Cash	2	20
					40

3. (a) Gupta Limited, an Indian Company has a branch at New York (USA). The trial balance of the branch as at 31st March, 2014 is as follows:

Particulars	US\$	
	Dr.	Cr.
Fixed Assets	51,200	-
Opening Stock	22,400	-
Purchases/ Sales	96,000	1,66,400
Goods Sent from HO	32,000	-
Carriage Inward	600	-
Branch Expenses	4,800	-
H.O. Account	-	45,600
Sundry Debtors / Creditors	9,600	6,800
Cash at Bank	2,200	-
	2,18,800	2,18,800

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The following further information's are given:

- (i) Expenses outstanding \$ 400.
- (ii) Depreciation charged on Fixed Assets @10% p.a. at W.D.V.
- (iii) The H.O. sent goods to Branch for ₹ 15,80,000.
- (iv) The H.O. shown an amount of ₹ 20,50,000 due from branch.
- (v) Closing Stock \$ 21,500.
- (vi) There were no transit items either at the start or at the end of the year.
- (vii) On April 1, 2012 when the fixed assets were purchased the rate of exchange was ₹ 43 to one \$. On April 2013 the rate was ₹47 per \$. On March 31,2014 the rate was ₹50 per \$. Average rate during year was ₹45 to one \$.

Assuming that the branch is an Integral Foreign Operation of the Indian Company.

Calculate the Difference in Exchange and show its Accounting treatment as per AS 11.

- (b) What are the disclosure requirements as per Accounting Standard 10? [12+3]

Solution:

(a) Trial Balance (in ₹) of New York (USA) Branch as on 31.03.2014

	Dr. US \$	Cr. US \$	Conversion	Dr. ₹	Cr. ₹
Fixed Assets	46,080	-	43	19,81,440	-
Depreciation on Fixed Assets	5,120	-	43	2,20,160	-
Opening Stock	22,400	-	47	10,52,800	-
Purchases	96,000	-	45	43,20,000	-
Sales		1,66,400	45	-	74,88,000
Goods sent from H.O.	32,000	-	Taken at amounts of recorded in H.O. books	15,80,000	-
Carriage Inward	600	-	45	27,000	-
Branch Expenses (4,800 +400)	5,200	-	45	2,34,000	-
Outstanding Expenses	-	400	50	-	20,000
Head Office Account	-	45,600	Taken at amounts of recorded in H.O. books		20,50,000
Trade Debtors	9,600	-	50	4,80,000	-
Trade Creditors	-	6,800	50	-	3,40,000
Cash & Bank	2,200	-	50	1,10,000	-
Exchange gain (Baln. Fig)					1,07,400
	2,19,200	2,19,200		1,00,05,400	1,00,05,400
Closing Stock	21,500	-	50	10,75,000	-

Difference in exchange [e.g. ₹1,07,400] will be credited to Profit and Loss Account.

(b) Disclosure requirement as per Accounting Standard 10

- Gross and net book values of fixed assets at the beginning and at the end of an accounting period showing additions, disposal, acquisition and other movements.

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- Expenditure incurred on account of fixed assets in the course of construction or acquisition.
- Revalued amount substituted for historical cost of fixed assets, the method adopted to compute the revalued amount, the nature of indices used, the year of any appraisal made, and whether an external valuer has valued the fixed assets, in case where fixed assets are stated at revalued amount.

4.(a) The following balances appeared in the books of lessee as on 1st January, 2011: Landlord Account (Cr.) ₹ 30,000; Shortworking Account (Dr.) ₹ 10,000 out of which ₹ 5,000 arose in 2010, ₹ 3,000 in 2009 and ₹ 2,000 in 2008.

The agreement of Royalty provided the following:

- Minimum Rent ₹ 60,000.
- The power to recoup shortworkings within three years immediately following the year in which it arises.
- Payment to the landlord to be made as under: 50% of the amount is payable in the year in which it becomes due and the balance 50% in the next year.

You are given the following particulars from 2011 to 2014:

Year	Payment to Landlord	Short workings (₹)	Short workings Recouped (₹)
2011	60,000	-	1,800
2012	62,000	-	6,000
2013	62,000	4,000	-
2014	64,000	-	4,000

You are required to show the Royalty Account and Short workings Account from 2011 to 2014.

(b) During the year ended 31st March 2014, Sourav Cricket Club received subscriptions as follows:

	(₹)
For year ended 31 st March, 2013	12,000
For year ended 31 st March, 2014	6,15,000
For the year 2014-15	18,000
Total	6,45,000

There are 700 members and annual subscription is ₹ 1,000 per member.

On 31st March, 2014, a sum of ₹ 15,000 was still in arrear for subscription for the year ended 31st March, 2013.

Ascertain the amount of subscriptions that will appear on the credit side of Income and Expenditure Account for the year ended 31st March, 2014. Also show how the items would appear in the Balance Sheet as on 31st March, 2013 and the Balance Sheet as on 31st March, 2014.

[(8+4) +3]

Solution:

(a) **Working Notes:**

2011	Payments to Landlord	₹ 60,000	Short workings of 2008 amounted to ₹ 2,000 of this ₹ 1,800 has been recovered 2011. ∴ Amount lapsed in 2011 = ₹ 2,000 - ₹ 1,800 = ₹ 200
	Less: Opening Outstanding Balance (due to Landlord)	<u>₹ 30,000</u>	
	Amount Payable 2011 (which is 50% of Total amount payable for 2011)	<u>₹ 30,000</u>	
	∴ 100% of Current year's dues	₹ 60,000	

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	Add: Short workings recouped Annual Royalty for 2011	<u>₹ 1,800</u> <u>₹ 61,800</u>	
2012	Payments to Landlord Less: Outstanding Amount of 2011 50% of the amount due for 2012 ∴ 100% of current year's due Add: Shortworking recouped Annual Royalty for 2012	<u>₹62,000</u> <u>₹30,000</u> <u>32,000</u> 64,000 <u>6,000</u> <u>70,000</u>	Recoupment in 2012 is ₹6,000. This definitely includes ₹ 3,000 for 2010. So, balance of shortworking carried forward for 2010 = ₹ 5,000 - ₹ (3,000 + 2,000)
2013	Payments to Landlord Less: Outstanding amount of 2012 50% of the amount due for 2013 ∴ 100 % of current year's dues Less: Short working occurred in 2013 Annual Royalty for 2013	<u>62,000</u> <u>32,000</u> <u>30,000</u> 60,000 <u>4,000</u> <u>56,000</u>	There is no excess royalty in 2013. The unabsorbed shortworkings ₹ 2,000 for 2010 must have lapsed this year. Current year's shortworking ₹ 4,000 is to be carried forward to the next year.
2014	Payments to Landlord Less: Outstanding Amount of 2013 50% of the amount due for 2014 ∴ 100% of current year's dues Add: Short workings recouped Annual Royalty for 2014	<u>64,000</u> <u>30,000</u> <u>34,000</u> 68,000 <u>4,000</u> <u>72,000</u>	Shortworkings brought forward ₹ 4,000 for 2013 have been fully recouped. So, there is no lapse or balance to be carried forward.

In the books of (Lessee) Royalty Account

Dr.			Cr.		
Date	Particulars	Amount (₹)	Date	Particulars	Amount (₹)
31.12.11	To, Landlord A/c	<u>61,800</u>	31.12.11	By, Manufacturing A/c	<u>61,800</u>
31.12.12	To, Landlord A/c	<u>70,000</u>	31.12.12	By, Manufacturing A/c	<u>70,000</u>
31.12.13	To, Landlord A/c	<u>56,000</u>	31.12.13	By, Manufacturing A/c	<u>56,000</u>
31.12.14	To, Landlord A/c	<u>72,000</u>	31.12.14	By, Manufacturing A/c	<u>72,000</u>

Short workings Account

Dr.			Cr.		
Date	Particulars	Amount (₹)	Date	Particulars	Amount (₹)
01.01.11	To, Balance b/d	10,000	31.12.11	By, Landlord A/c (Recoup)	1,800
			31.12.11	„ P & L A/c	200
			31.12.11	„ Balance c/d	8,000
		10,000			10,000
01.01.12	To, Balance b/d	8,000	31.12.12	By, Landlord A/c (Recoup)	6,000
			31.12.12	„ Balance c/d	2,000
		8,000			8,000
01.01.13	To, Balance b/d	2,000	31.12.13	By, Profit & Loss A/c	2,000
31.12.13	To, Landlord A/c (occurred)	4,000	31.12.13	By, Balance c/d	4,000

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		6,000			6,000
01.01.14	To, Balance c/d	4,000	31.12.14	By, Landlord A/c (Recoup)	4,000
		4,000			4,000

Note: In the absence of any specific information, let us assume that royalty has been paid on Production

**(b) An extract of Income and Expenditure Account
for the year ended 31st March 2014**

Dr.		Cr.
Expenditure	₹	Income
		By Subscription (700 x ₹ 1000)
		7,00,000

An extract of Balance Sheet as at 31st March, 2014

Liabilities	₹	Assets	₹
Subscription received in advance	18,000	Subscription outstanding For 2012 – 2013 15,000 For 2013 – 2014 85,000	1,00,000

An extract of Balance Sheet as at 31st March, 2013

Liabilities	₹	Assets	₹
		Subscription outstanding (15,000 + 12,000)	27,000

5. (a) From the following information, compute the amount of provision to be made against the advances of a commercial bank

Particulars	(₹ in '00,000)
Advance fully secured	140
Advance overdue for 15 months	40
Advance overdue for more than 2.5 year but less than 3 years (Secured by mortgage of land & building valued ₹ 10 lakhs)	20
Unsecured advance not recoverable	-
Total amount of Loans & Advances	40
	240

- (b) DESC Limited decided to replace one of its old plants by an improved plant. This plant was built in 1974 for ₹ 33,75,000. To build a new plant of the same size and capacity it would now cost ₹ 50,00,000. The cost of the new plant with larger capacity was ₹ 1,06,25,000 and in addition, materials of the old plant valued at ₹ 3,43,750 were used in the construction of the new plant. The balance of the old plant was sold for ₹ 1,87,500.

You are required to calculate the amount to be charged to Revenue Account and the amount to be capitalized. Also show the Plant Account and the Replacement Account.
[5+(2+2+3+3)]

Solution:

(a) Statement Showing the Ascertainment of Provisions

Type of Advance	Amount (₹In '00,000)	Percentage of Interest (%)	Amount of Provision (₹)
Standard Asset	140	0.40%	56,000
Sub-Standard Asset	40	15%	6,00,000
Doubtful Asset			

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- Unsecured Portion	10	100%	10,00,000
- Secured Portion (More than 2.5 years but less than 3 years)	10	40%	4,00,000
Loss Asset	40	100%	40,00,000
			60,56,000

Workings Note:

Unsecured Provision (₹ 20,00,000 – ₹ 10,00,000) = ₹ 10,00,000

(b)

Amount chargeable to Revenue Account	Amount (₹)	Amount (₹)
Estimated current cost of replacing old plant		50,00,000
Less: Sale proceeds of old plant	1,87,500	
Value of materials used in new plant	3,43,750	5,31,250
		44,68,750

Amount to be Capitalized	Amount (₹)
Cost of building new plant	1,06,25,000
Less: Estimated current cost of replacing old plant	50,00,000
	56,25,000

Plant Account

Dr.		Cr.
Particulars	Amount (₹)	Particulars
To Balance b/d	33,75,000	By Balance c/d
To Bank A/c (₹ 59,68,750 – ₹ 3,43,750)	56,25,000	
To Replacement A/c	3,43,750	
	93,43,750	
		93,43,750

Replacement Account

Dr.		Cr.
Particulars	Amount (₹)	Particulars
To Bank A/c (Current cost of replacement)	50,00,000	By Bank A/c (sale proceeds)
		By Plant A/c (materials used)
		By Revenue A/c (transfer)
	50,00,000	
		50,00,000

6. P, Q and R were carrying on business in partnership, sharing profits and losses in the ratio of 5 : 4 : 3 respectively. The trial balance of the firm as on 31st March, 2014 was the following:

Particulars	Debit (₹)	Credit (₹)
Plant and Machinery	85,000	---
Stock	64,200	---
Sundry Debtors	66,500	---
Sundry Creditors	---	84,700
Capital Accounts: P	---	63,000
Q	---	42,000
R	---	21,000
Drawings Accounts: P	20,000	---

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Q	20,000	---
R	15,000	---
Depreciation on Plant and Machinery	---	25,000
Trading profit for the year	---	1,23,300
Cash at Bank	88,300	---
	3,59,000	3,59,000

Interest on Capital accounts @ 5% p.a. on the amount standing to the credit of partner's Capital Account at the beginning of the year was not provided before preparing the above Trial Balance. On 31st March, they formed a Private Limited Co. with an authorized share capital of ₹ 2,00,000 in shares of ₹ 10 each to be divided in different classes to take over the business of partnership.

You are informed as under.

- (a) Plant and Machinery is to be transferred at ₹ 66,000.
- (b) Shares in the company are to be issued to the partners, in such numbers and such classes as will give the partners, by reason of their share holdings alone, the same rights as regards interest on capitals and the sharing of profit and losses as they had in the partnership.
- (c) Before transferring the business, the partners wish to draw from the partnership their profit to such an extent that the Bank balance is reduced to ₹ 50,000. For this purpose, sufficient profits of the year are to be retained in profit sharing ratio.
- (d) All assets and liabilities except plant and machinery and the bank balance are to be transferred at their values in the books of the partnership as on 31st March.

You are required to prepare:

- (i) Profit and Loss Account for the year ending on 31.03.2014.
- (ii) Capital Accounts showing all the adjustments required to dissolve the partnership.
- (iii) A statement showing the number of shares of each class to be issued by the company to each of the partners and details of rights attaching to those shares.
- (iv) The Balance Sheet of the company immediately after acquiring the partnership and issuing of shares. [2+5+2+6]

Solution:

(i)

Profit and Loss Account for the year ended 31st March, 2014

Dr.			Cr.
Particulars	₹	Particulars	₹
To Interest on Capitals:		By Trading Profit	1,23,300
P	3,150		
Q	2,100		
R	<u>1,050</u>		
To Profit transferred to capital A/c's:			
P	48,750		
Q	39,000		
R	<u>29,250</u>		
	1,17,000		
	<u>1,23,300</u>		
			1,23,300

(ii)

Capital Accounts of Partners

Dr.				Cr.			
Particulars	P ₹	Q ₹	R ₹	Particulars	P ₹	Q ₹	R ₹
To Drawings	20,000	20,000	15,000	By Balance b/d	63,000	42,000	21,000
To Bank (drawings)	19,400	11,100	7,800	By Interest on Capital	3,150	2,100	1,050
To 5% Preference Shares	28,000	14,000	---	By P&L A/c	48,750	39,000	29,250
To Equity Shares	50,000	40,000	30,000	By Plant & Machinery (Profit on transfer)	2,500	2,000	1,500
	<u>1,17,400</u>	<u>85,100</u>	<u>52,800</u>		<u>1,17,400</u>	<u>85,100</u>	<u>52,800</u>

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(iii) The question of preference and equity shares to be issued to P, Q and R can be dealt with in the following manner:

Particulars	P ₹	Q ₹	R ₹
A. Total amount due as capital	78,000	54,000	30,000
B. Proportionate Capitals taking R's Capital as the Base Capital (for which Equity Shares should be issued)	50,000	40,000	30,000
C. Surplus Capital (A – B) (for which 5% Non-Cum Pref. Shares should be issued)	28,000	14,000	Nil

The above treatment is based on the principle that the function of interest in case of partnership is to compensate those partners who contribute capital in excess of what is required as per profit sharing ratio.

(iv)

Balance Sheet of Ltd. as at 1st April, 2014

Particulars	Note No.	₹
(i) Equity and Liabilities		
(1) Shareholders' Funds		
(a) Share Capital	1	1,62,000
(2) Non-Current Liabilities		
(3) Current Liabilities		
Trade Payables		84,700
Total		2,46,700
(ii) Assets		
(1) Non-Current Assets		
(i) Tangible Assets (Plant & Machinery)		66,000
(2) Current Assets		
Inventories		64,200
Trade Receivables		66,500
Cash and Cash Equivalents		50,000
Total		2,46,700

Notes to Accounts:

Note 1: Share Capital

Authorized Capital 20,000 Shares of ₹ 10 each	2,00,000
Issued & Subscribed Capital 12,000 Equity Shares of ₹ 10 each 4,200, 5% Pref. Shares of ₹ 10 each	1,20,000 42,000
(Of the above all Shares were issued for consideration other than cash)	1,62,000

Working Notes:

- (i) Calculation of Additional Drawings
Drawings (already made: ₹ 55,000, plus those to be made ₹ 38,300, (i.e., ₹ 88,300 – 50,000), are ₹ 93,300. Of these, ₹ 6,300 is for interest. The remaining ₹ 87,000 is to be drawn by the partners in the ratio of 5 : 4 : 3.

Statement showing the calculation of additional drawings

Particulars	P ₹	Q ₹	R ₹
Total Drawings (excluding interest) (Ratio 5 : 4 : 3)	36,250	29,000	21,750
Add: Interest on Capital	3,150	2,100	1,050
	39,400	31,100	22,800
Less: Amount already drawn	20,000	20,000	15,000
Additional Drawings to be made (A + B – C)	19,400	11,100	7,800

Answer to PTP_Intermediate_Syllabus 2008_Jun 2015_Set 2

- (ii) Purchase Consideration = Agreed Value of Assets taken over – Agreed amount of Liabilities taken over
 = ₹ 66,000 + ₹ 64,200 + ₹ 66,500 + ₹ 50,000 – ₹ 84,700
 = ₹ 1,62,000.

7. (a) Mr. X runs a retail business. Suddenly he finds on 31.03.2014 that his Cash and Bank Balances have reduced considerably. He provides you the following information:

(i) Balances	31.03.2013 ₹	31.03.2014 ₹
Sundry Debtors	40,400	58,800
Sundry Creditors	79,400	22,400
Cash at Bank	1,08,400	2,500
Cash in Hand	10,400	500
Rent (Outstanding for one Month)	2,400	3,000
Stock	11,400	20,000
Electricity and Telephone Bill – Outstanding	---	6,400

(ii) Bank Pass Book reveals the following:	₹
Total Deposits	10,34,000
Withdrawals:	
Creditors	8,90,000
Professional Charges	34,000
Furniture and Fixtures (acquired on 1.10.2013)	54,000
Proprietor's Drawings	1,61,900

- (iii) Rent has been increased from January, 2014.
 (iv) Mr. X deposited all cash sales and collections from debtors after meeting wages, shop expenses, rent, and electricity and telephone charges.
 (v) Mr. X made all purchases in credit.
 (vi) His credit sales during the year amounts to ₹ 9,00,000.
 (vii) He incurred ₹ 6,500 per months towards wages.
 (viii) He incurred following expenses:
 (a) Electricity and telephone charges ₹ 24,000 (paid)
 (b) Shop expenses ₹ 23,000 (paid).
 (ix) Charge depreciation on furniture and fixtures @ 10%

Finalize the accounts of Mr. X and compute his profit for the year ended 31.03.2014. Prepare his Statement of Affairs and reconcile the Profit and Capital balance.

(b) A Das & Co. has two departments A & B, Department A sells goods to Department B at normal selling prices. From the following particulars prepares departmental trading and profit and loss account for the year ended 31st March, 2014 and also ascertain the net profit to be included in balance sheet:

Particulars	Deptt. A ₹	Deptt. B ₹
Opening stock	5,00,000	Nil
Purchases	28,00,000	3,00,000
Goods from department A	---	8,00,000
Wages	3,50,000	2,00,000
Travelling expenses	20,000	1,60,000
Closing stock at cost to the department	8,00,000	2,09,000
Sales	30,00,000	20,00,000
Printing and stationery	30,000	25,000

Answer to PTP_Intermediate_Syllabus 2008_Jun 2015_Set 2

The following expenses incurred for both the departments were not apportioned between the departments:

- (i) Salaries ₹ 3,30,000.
- (ii) Advertisement expenses ₹ 1,20,000.
- (iii) General expenses ₹ 5,00,000.
- (iv) Depreciation is to be charged @ 30% on the machinery value of ₹ 96,000.

The advertisement expenses of the departments are to be apportioned in the turnover ratio. Salaries and depreciation apportioned in the ratio of 2 : 1 and 1 : 3 respectively. General expenses are to be apportioned in the ratio of 3 : 1. [10 + 5]

Solution: (a)

Mr. X

Trading and Profit and Loss Account for the year ended 31st March, 2014

Dr.		Cr.
Particulars	₹	Particulars
To Opening Stock	11,400	By Sales (Note iii):
To Purchases (Note ii)	8,28,000	Cash
To Gross Profit c/d	3,78,100	2,97,500
		Credit
		<u>9,00,000</u>
	12,17,500	By Closing Stock
To Wages (₹ 6,500 x 12)*	78,000	
To Rent (Note iv)	30,600	By Gross Profit b/d
To Electricity and Telephone (Note v)	30,400	
To Professional Charges	34,000	
To Shop Expenses	23,000	
To Depreciation on Furniture (Note vii)	2,700	
To Net Profit (Transferred to Capital A/c)	1,79,400	
	3,78,100	
		11,97,500
		20,000
		12,17,500
		3,78,100
		3,78,100

* For retailer, wages is not a direct expense. Therefore, it has been charged to Profit and Loss Account.

Statement of Affairs of X as on 31st March, 2013 and 2014

Liabilities	31.03.2013	31.03.2014	Assets	31.03.2013	31.03.2014
	(₹)	(₹)		(₹)	(₹)
Capital (Balancing figure)	83,800	1,01,300	Furniture (₹ 54,000–2,700)	---	51,300
Sundry Creditors	84,400	22,400	Stock	11,400	20,000
Outstanding Expenses:			Sundry Debtors	40,400	58,800
Rent	2,400	3,000	Bank	1,08,400	2,500
Electricity and Telephone	---	6,400	Cash	10,400	500
	1,70,600	1,33,100		1,70,600	1,33,100

Reconciliation of Profits

Particulars	₹
Closing Capital	1,01,300
Add: Drawings	1,61,900
	2,68,200
Less: Opening Capital	83,800
Profit for the year 2013-14	1,79,400

Working Notes:

(i) Sundry Debtors Account

Dr.		Cr.
Particulars	₹	Particulars
To Balance b/d	40,400	By Cash (Balancing figure)
To Sales	9,00,000	8,81,600
		By Balance c/d
	9,40,400	58,800
		9,40,400

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(ii) Sundry Creditors Account

Dr. Particulars	₹	Cr. Particulars	₹
To Bank	8,90,000	By Balance b/d	84,400
To Balance c/d	22,400	By Purchases (Balancing Figure)	8,28,000
	9,12,000		9,12,000

(iii) Cash Book

Dr. Particulars	₹	₹	Cr. Particulars	₹	₹
To Balance b/d	10,400	1,08,400	By Bank [Contra]	10,34,000	---
To Cash [Contra]	---	10,34,000	By Creditors	---	8,90,000
To Sundry Debtors (Note (i))	8,81,600	---	By Professional Charges	---	34,000
To Cash Sales (Balancing figure)	2,97,500	---	By Furniture	---	54,000
			By Drawings	---	1,61,900
			By wages	78,000	---
			By Shop Expenses	23,000	---
			By Electricity and Telephone Charges	24,000	---
			By Rent (Note (vi))	30,000	---
			By Balance c/d	500	2,500
	11,89,500	11,42,400		11,89,500	11,42,400

(iv) Rent Account

Dr. Particulars	₹	Cr. Particulars	₹
To Cash A/c	30,000	By Rent Outstanding A/c	2,400
To Rent Outstanding c/d	3,000	By Profit and Loss A/c	30,600
	33,000		33,000

(v) Electricity & Telephone Account

Dr. Particulars	₹	Cr. Particulars	₹
To Bank A/c	24,000	By Profit and Loss A/c	30,400
To Electricity & Telephone Outstanding A/c	6,400		
	30,400		30,400

(vi) Rent Paid

9 x ₹ 24,000	₹ 21,600
3 x ₹ 3,000	<u>9,000</u>
	<u>30,600</u>

(vii) Depreciation on Furniture: @ 10% p.a. on ₹ 54,000 for 6 months = ₹ 2,700.

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(b)

A Das & Co.

Departmental Trading and Profit and Loss Account for the year ended 31st March, 2014

Dr.			Cr.		
Particulars	Deptt. A ₹	Deptt. B ₹	Particulars	Deptt. A ₹	Deptt. B ₹
To Opening Stock	5,00,000	---	By Sales	30,00,000	20,00,000
`` Purchases	28,00,000	3,00,000	`` Department B	8,00,000	---
`` Department A (transfer of goods)	---	8,00,000	(transfer of goods)		
`` Wages	3,50,000	2,00,000	`` Closing stock	8,00,000	2,09,000
`` Gross profit c/d	9,50,000	9,09,000			
	46,00,000	22,09,000		46,00,000	22,09,000
`` Salaries (2 : 1)	2,20,000	1,10,000	By Gross Profit c/d	9,50,000	9,09,000
`` Travelling Expenses	20,000	1,60,000			
`` Printing and stationery	30,000	25,000			
`` Advertisement expenses (3 : 2)	72,000	48,000			
`` General expenses (3 : 1)	3,75,000	1,25,000			
`` Depreciation on machinery (1 : 3)	7,200	21,600			
`` Departmental profit	2,25,800	4,19,400			
	9,50,000	9,09,000		9,50,000	9,09,000

General Profit and Loss Account For the year ended 31st March, 2013

Dr.			Cr.	
Particulars	₹	Particulars	₹	
To Provision for unrealized profit on stock	38,000	By Departmental profit:		
To Net Profit	6,07,200	Department A	2,25,800	
		Department B	4,19,400	
	6,45,200		6,45,200	

Working Notes:

- (i) Advertisement expenses have been apportioned in the ratio of sales to outsiders (i.e., 3 : 2). No advertisement is needed for inter-departmental sales.
- (ii) Provision for unrealized profit on stock:

$$\text{Rate of goods profit in department A} = \frac{\text{₹}9,50,000}{\text{₹}38,00,000} \times 100 = 25\%$$

Proportion of goods from department A in the stock of department B

$$= \frac{\text{₹}8,00,000}{\text{₹}(3,00,000 + 8,00,000)} \times \text{₹}2,09,000 = \text{₹}1,52,000$$

$$\text{Unrealized profit} = 25\% \text{ of } \text{₹}1,52,000 = \text{₹}38,000$$

8. Write a short notes of any 3 of the followings:

[3 x 5]

- (a) Level I Entities for applicability of accounting standards.
 (b) Accounting Standard 9 is not applicable in the case of specified revenue or gain.
 (c) Difference between Departmental Accounting and Branch Accounting.
 (d) Various methods of Redemption of Debentures.

Solution:

(a) Level I Entities:

Non-corporate entities which fall in any one or more of the following categories, at the end of the relevant accounting period, are classified as Level I entities:

- (i) Entities whose equity or debt securities are listed or are in the process of listing on any stock exchange, whether in India or outside India.
 (ii) Banks (including co-operative banks), financial institutions or entities carrying on insurance business.

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- (iii) All commercial, industrial and business reporting entities, whose turnover (excluding other income) exceeds rupees fifty crore in the immediately preceding accounting year.
- (iv) All commercial, industrial and business reporting entities having borrowings (including public deposits) in excess of rupees ten crore at any time during the immediately preceding accounting year.
- (v) Holding and subsidiary entities of any one of the above

(b) Accounting Standard 9 is not applicable to following revenue or gain –

- (i) Revenue arising from construction contracts
- (ii) Revenue arising from hire purchase, lease agreements
- (iii) Revenue arising from Govt. grants and subsidies
- (iv) Revenue of Insurance companies arising from insurance contracts
- (v) Gain – realized or unrealized gain. Example: Profit on sale of fixed asset.

(c) **Difference between Departmental Accounts and Branch Accounts:**

- (i) The purpose of Departmental Accounting is the evaluation of trading results of departments.
Branch Accounting is made to know the trading results of each individual Branch. The Head office or the Branch itself may employ departmental accounting further if it comprises of more than one department.
- (ii) Any branch is geographically separate from the Head Office. But departments of a business are run under same roof usually.
- (iii) Due to separate locations, the necessity of allocation of common expenses does not arise in Branch Accounting whereas allocation of costs is the primary task for departmental accounting.
- (iv) On the other hand Departmental Accounting does not require the adjustments and rectifications which Branch Accounting has to make for finalizing the accounts.
- (v) The nature of Branch Accounting Depends on the nature of branches. The Head Office maintains all important accounts if the branch is a dependent branch. If the branch is independent, it prepares its own accounts. In Departmental Accounting the accounting is made centrally.

(d) Based on the terms of the issue, the liability on Debentures can be settled in any of the following ways –

- (i) Redemption in **equal annual installments** over a period, out of cash accruals / surplus.
- (ii) Redemption at the end of the stipulated period, after a **fixed number of years**, out of cash accruals / surplus.
- (iii) Redemption at the end of the stipulated period, by creating a **Sinking Fund** (invested in outside securities).
- (iv) **Purchase** of Own Debentures in the Open Market, (whenever quoted at a discount) and immediate **cancellation** thereof.
[Note: Instead of cancelling, these Debentures may also be kept open / alive, for issuing them again later.]
- (v) Conversion [in part of full] into Shares.
Note: Debentures are usually redeemable, but a Company may also issue Irredeemable Debentures.