Paper 5- Financial Accounting

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
		Identity	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 x 10=20]**

(i) A publishing company undertook repair and overhauling of its machinery at a cost of ₹ 5.00 lakhs to maintain them in good condition and capitalized the amount, as it is more than 25% of the original cost of the machinery. As an auditor, what would you do in this situation?

Answer:

Size of the expenditure is not the criteria to decide whether subsequent expenditure should be capitalized. The important question is whether the expenditure increases the expected future benefits from the asset beyond its pre-assessed standard of performance as per AS-10. Only then it should capitalize. Since in this case, only the benefits are maintained at existing level, the expenditure should not be capitalized. If under the circumstances the amount is material the auditor should qualify his report.

(ii) Purchase price machine ₹8,90,000; Freight and Cartage ₹7,000; Installation charges ₹ 30,000; Insurance charges ₹20,000; Residual Value of machine is ₹40,000; Estimated useful life 5 years. Calculate the amount of annual depreciation under straight line method.

Answer:

$$\text{Annual Depreciation}=\frac{₹8,90,000+7,000+30,000-40,000}{5}=\frac{₹8,87,000}{5}=₹1,77,400$$

(iii) Show how will you deal with the following items while preparing the final accounts of a club for the year ending on March 31,2015:

Prizes awarded	**₹ 2,000**
Prize Fund as at 31.03.2014	**₹12,000**
Donations for Prizes received during the year 2014 – 2015	**₹ 2,800**

Answer:

AN EXTRACT OF BALANCE SHEET AS AT 31ST MARCH, 2015

Liabilities		₹	Assets	₹
Prize Fund:				
Opening Balance	12,000			
Add: Donations	2,800			
Less: Prizes awarded	2,000	12,800		

(iv) X, Y and Z are partners sharing profits & losses in the ratio of 3:2:1. After the final accounts have been prepared, it was discovered that Interest on drawings had not been taken into consideration, the Interest on drawings of partners amounted to — X ₹250; Y ₹190 and Z ₹100. Show the amount to be adjusted in their respective accounts.

Answer:

ADJUSTMENT TABLE

	Particulars	X ₹	Y ₹	Z ₹
I.	Amount which should have been debited by way of Interest on drawings	250	190	100
II.	Amount which should have been credited by way of Share of Profit	270	180	90
	Difference (I - II)	-20(Cr.)	10 (Dr)	10 (Dr.)

(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.

Answer:

Computation of Cost of Acquisition of Debentures

Particulars	₹
Cum-interest purchase price of debentures	6,50,000
Less: Interest from the last date of payment of interest to the date of purchase [₹6,00,000 × 3/12 × 12%]	18,000
Cost of debentures at the time of acquisition	6,32,000

(vi) A Company took a construction contract for ₹100 lakhs in January, 2014. It was found that 80% of the contract was completed at a cost of ₹92 lakhs on the closing date i.e. on 31.3.2015. The company estimates further expenditure of ₹23 lakhs for completing the contract. The expected loss would be ₹15 lakhs. Can the company recognise the loss in the financial statements prepared for the year ended 31.3.2015?

Answer:

AS – 7	As per AS-7 an expected loss on the Construction contract should be recognized as an expense immediately irrespective of (i) whether or not the work has commenced on the contract; or (ii) the stage of completion of the contract: or (iii) the amount of profits expected to arise in other contracts.
Advice	Hence, the company must recognize the loss immediately.

(vii) Actual value of stock as at date of fire is ₹5,00,000. The value of salvaged stock is ₹1,00,000 and the Sum Insured is ₹2,50,000. Calculate the amount of claim.

Answer:

$$\text{Claim} = (₹5,00,000 – ₹1,00,000) \times \frac{₹2,50,000}{₹5,00,000} = ₹2,00,000$$

(viii) Mugdha Ltd. furnished the following particulars:

Debtors ledger include ₹24,000 due from Mitra Ltd. whereas creditors ledger include ₹ 14,400 due to Mitra Ltd.

Journalise the above.

Answer:

In the books of Mugdha Ltd.
Journal (without narration)

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
	Creditors Ledger Adjustment A/c Dr. To Debtors ledger Adjustment A/c		14,400	 14,400

(ix) Indian Assurance Co. Limited has the following balances as on 31st March –

Life Assurance Fund	**₹3,800 Lakhs**
Net Liability as per Valuation	**₹3,000 Lakhs**
Interim Bonus paid	**₹500 Lakhs**

You are required to show –Distribution Statement as on 31st march, 2015.

Answer:

Computation of profit/surplus on valuation

Life fund	3,800
Less : Net liability as per actuarial valuation	3,000
Profit/surplus on valuation	800

Distribution Statement

Particulars	₹ in Lakhs
Profit as per Valuation balance Sheet	800
Add: Interim Bonus Paid	500
Amount available for distribution	**1,300**
Policyholders' Share (1,300 × 95%)	1,235
Less: Interim Bonus paid	(500)
Balance due to Policyholders	**735**

(x) In X Bank Ltd. , the doubtful assets (more than 3 years) as on 31.03.2015 is ₹1,000 lakhs. The value of security (including DICGC 100% cover of ₹100 lakhs) is ascertained at ₹500 lakhs. How much provision must be made in the books of the Bank towards doubtful assets?

Answer:

	(₹ in lakhs)
Doubtful Assets (more than 3 years)	1,000
Less: value of security (excluding DICGC cover)	400
Less: DICGC cover	100
Unsecured portion	500

Provision for unsecured portion @ 100%	500
Provision for secured portion @ 100%	400
Total Provision to be made	900

2. Answer any two.

(a) The retailer has large numbers of rapidly changing inventory items that have similar margins and for which it is impracticable to use other costing methods. He furnishes the following details:

Particulars	Items	Cost	Retail Price
Opening Stock	**10,000 units**	**50 per unit**	**80 per unit**
Purchases	**1,00,000 units**	**60 per unit**	**100 per unit**
Sales ₹86,40,000			

Calculate the value of closing stock as per retail method. [4]

Answer:

	Particles	Cost	Retail Price
A	OPENING Stock	5,00,000	8,00,000
B	Purchases	60,00,000	1,00,00,000
C	Total [A + B]	65,00,000	1,08,00,000
D	Sales		86,40,000
E	Closing Stock at retail Price		21,60,000
F	Closing Stock at Cost [E × 65/108]	13,00,000	

(b) The date of year ending of a firm is 31st of March every year. In 2014 – 15 the physical verification of stock was completed on 10 April, 2015. When stock as per physical verification was ₹2,40,000. The following information is available:

I. Sales between 01.04.15 and 10.04.15 amounted to ₹55,000 which included –

(i) Goods sent on consignment at an invoice price of ₹18,000 which included a loading of 20% on cost.

(ii) Goods sent to its branch at Pune at a price of ₹16,200 which was made by adding a margin of 20% on cost.

(iii) Profit included in other sales was $33\frac{1}{3}\%$ on cost.

(iv) Damaged goods sold for ₹3,000 at a loss of 25% on cost.

II. Goods received as consignee and included in stock ₹12,000.

III. Goods costing ₹3,000 were received in stores but were omitted to be recorded in the books within 31.03.2015.

IV. Invoices were issued for ₹8,000 on 31.03.15 but the goods were actually delivered on 08.04.15

You are required to compute the value of stock on 31.03.2015. [4]

Answer:

Statement Showing Computation of value of stock on 31st march, 2015

Particles	**Amount ₹**	**Amount ₹**
Stock as per physical verification on 10.04.15		2,40,000
Add: 1. Cost price of goods sold between 01.04.15 and 10.04.15		
(a) Sale of Damaged Goods [Note 1]	3,000	
(b) Other sales at cost [note 2]	13,350	
2. Goods lying with Consignee [at cost] [₹18,000 less $\frac{1}{5}$th of cost or $\frac{1}{6}$th of S. P. or $\frac{1}{6}$th of 18,000]	15,000	
3. Stock with Branch at Cost (₹16,200 - $\frac{1}{6}$th of ₹16,200 or $\frac{5}{6}$ × ₹16,200]	13,500	
		44,850
Less: 1. Goods received as consignee	12,000	68,850
2. Goods received but not recorded	3,000	(-) 15,000
		53,850
Add: Cost Price of goods sold but not delivered within 31.03.15 [₹8,000 - $\frac{1}{3}$rd on cost or $\frac{1}{4}$th of ₹8,000]		6,000
Value of Stock on 31.03.15		59,850

Working Notes:

A. The damaged goods have been sold at a loss. It means its net realizable value was less than its cost.

So, the NRV has been considered as its value. Cost price has been ignored.

B. **Other Sales**

Particles	**Amount ₹**	**Amount ₹**
Total		55,000
Less: Sales Separately Considered -		
(i) Goods Sent on Consignment	18,000	
(ii) Goods Sent to Pune Branch	16,200	
(iii) Sale of Damaged Goods	3,000	37,200
Other Sales at S. P.		17,800
Less: Profit included [$\frac{1}{3}$rd of cost or $\frac{1}{4}$th of ₹17,800]		4,450
Cost Price		13,350

(c) List the Disclosure requirements as per AS – 11 **[4]**

Answer :

An enterprise should disclose—

- Amount of exchange difference included in the net profit or loss.
- Amount accumulated in foreign exchange translation reserve.

- Reconciliation of opening and closing balance of foreign exchange translation reserve.
- If the reporting currency is different from the currency of the country in which entity is domiciled, the reason for such difference.
- A change in classification of significant foreign operation needs following disclosures—
  - Nature of change in classification
  - The reason for the change
  - Effect of such change on shareholders fund
  - Impact of change on net profit or loss for each prior period presented
  - The disclosure is also encouraged of an enterprise's foreign currency risk management policy.

3. (Answer any two)

(a) (i) X, Y and Z are partners sharing profits an loses in the ratio of 4: 3: 2 respectively. On 31st march, 2015 Y retires and X and Z decide to share profits and losses in the ratio of 5:3. Then immediately, W is admitted for 3/10th shares in profits, 2/3rd of which was given by X and rest was taken by W from Z. Goodwill of the firm is valued at ₹2,16,000. W brings required amount of goodwill.

Give necessary journal Entries to Adjust goodwill on retirement of Y and admission of W if they do not want to raise Goodwill in the books of accounts. [3]

Answer :

Journal Entries

Date	Particulars	L. F.	Dr. (₹)	Cr.(₹)
31.03.15	X's Capital A/c Dr. Z's Capital A/c Dr. To Y's Capital A/c (3/9 × ₹2,16,000) (Being Y's Share of goodwill adjusted in the capital accounts of gaining partners in their gaining ratio 13 : 11 – refer Working Note.)		39,000 33,000	 72,000
	Cash A/c Dr. To W's Capital A/c (3/10 × ₹2,16,000) (Being the amount of goodwill brought in by W)		64,800	 64,800
	W's Capital A/c Dr. To X's Capital A/c To Z's Capital A/c (Being the goodwill credited to sacrificing partners in their sacrificing ratio 2: 1)		64,800	 43,200 21,600

Working Note:

Calculation of gaining ratio of X and Z

Gaining ratio = New ratio – Old ratio

For X = 5/8 – 4/9

= 13/72

Z = 3/8 – 2/9

= 11/72

Gaining ratio = 13: 11

(a) (ii) M/s Bright and Company with its H.O. in Madras invoiced goods to its branch at Bombay at 20% less than the catalogue price which is cost plus 50% with instructions that cash sales were to be made at invoice price and credit sales at catalogue price. Discount on credit sales at 15% on prompt payment will be allowed. From the following particulars available from the branch, prepare Branch Trading and Profit and Loss Account for the year ended 31st March 2015, in the H.O. books.

Opening Stock (invoice price) ₹12,000; Goods received from H.O. (invoice price) ₹1,32,000; Opening Debtors ₹10,000; Sales— Cash ₹46,000; Sales— Credit ₹1,00,000; Cash realised from debtors ₹85,635; Discount allowed to debtors ₹13,365; Expenses at the branch ₹6,000; Remittances to H.O. ₹1,20,000; Closing Debtors ₹11,000; Closing Cash in hand ₹ 5,635; Closing Stock (Invoice price) ₹15,000.

It was reported that a part of the stock at the branch was lost by fire during the year whose value is to be ascertained; and a provision should be made for discount to be allowed to debtors as at 31st March 2015 on the basis of the year's trend of prompt payment. [9]

Answer:

BOMBAY BRANCH TRADING AND PROFIT AND LOSS ACCOUNT

For the ended 31st March, 2015

Dr. Cr.

Particulars	₹	Particulars	₹
To Opening Stock [12,000 × 100/120]	10,000	By Sales— Cash	46,000
To Goods from H.O [1,32,000 ×100/120]	1,10,000	—Credit	1,00,000
To Gross Profit c/d	41,000	By Abnormal loss: [3,000 × 100/120]	2,500
		By Closing Stock	12,500
	1,61,000		1,61,000
To Branch expenses	6,000	By Gross. Profit b/d	41,000
To Discount	13,365		
To Abnormal Loss	2,500		
To Provision for discount	1,337		
To Net Profit transferred to General Profit & Loss A/c	17,798		
	41,000		41,000

Working Notes:

(i) Computation of Invoice price

		₹
Let cost price be	=	100
Thus, catalogue price will be = 100 + 50% of 100	=	150
Thus Invoice price being 20% less than catalogue price (150 × 80/100)	=	120

(ii) **Dr.** **Cr.**

Particulars	₹	Particulars	₹
To Balance b/d	12,000	By Branch Cash A/c (Cash sales)	46,000
To Goods sent to Branch A/c	1,32,000	By Branch Debtors A/c (Cr. Sales) [₹ 1,00,000 × 120/150]	80,000
		By Abnormal Loss (b. f)	3,000
		By Balance b/d	15,000
	1,44,000		1,44,000

(iii) Computation of provision for discount:

(a) Prompt paying debtors who availed of discount = ₹13,365 × 100/15 = 89,100

(b) Total debtors during the year = O. Balance + Credit Sales = 10,000 + 1,00,000 = 1,10,000

(c) Proportion of prompt payers to total debtors = $\frac{89,100}{1,10,000} \times 100 = 81\%$

(d) Likely prompt paying debtors included in closing Debtors = 81% of ₹11,000 = ₹8,910

(e) Provision for discount on the closing balance = 15% of 8,910 = ₹1,337 App.

(b) M/s Multistory Limited sells goods both on cash and hire purchase basis and record hire-purchase transactions on "Stock and Debtors System". It closes its books of accounts on 31st ' March every year. On 1st May, 2014, it sold to Manab a Scooter and a LCD TV.

The other information are as follows:

Particulars	**Scooter**	**LCD TV**
Cost Price	**30,000**	**40,000**
Down Payment	**5,000**	**6,000**
Number of Installments Payable	**12**	**6**
Amount of each Installment	**2,800**	**7,600**
Mode of payment	**Monthly**	**Quarterly**
1st Installment due on	**1st June ,2011**	**1st July, 2011**

Manab paid all the installments due except for those due on 1st January, 2015. It was decided that M/s. Multistore Limited will take back Scooter at an agreed price of ₹22,000 and excess amount, if any, will be adjusted against the installments due of LCD TV.

Scooter repossessed was sold for ₹24,500 after incurring repair charges of ₹1,000.

Prepare necessary ledger accounts to record the above transactions and find out the profit.

[12]

Answer:

In the books of M/s Multistore Limited
Hire Purchase Stock Account

Date	Particulars	₹	Date	Particulars	₹
1.5.2014	To Goods Sold on Hire Purchase A/c (38,600 + 51,600)	90,200	1.05.2014	By Hire Purchase Debtors A/c (Down payment) (5,000 + 6,000)	11,000
			1.06.2014	By Hire Purchase Debtors A/c (Scooter)	2,800

			1.07.2014	By Hire Purchase Debtors A/c (Scooter & LCD T.V.) -(₹ 2,800+ ₹ 7,600)	10,400
			1.08.2014	By Hire Purchase Debtors A/c (Scooter)	2,800
			1.09.2014	By Hire Purchase Debtors A/c (Scooter)	2,800
			1.10.2014	By Hire Purchase A/c (Scooter & LCD T.V.)	10,400
			1.11.2014	By Hire Purchase Debtors A/c (Scoter)	2,800
			1.12.2014	By Hire Purchase Debtors A/c (Scoter)	2,800
			1.01.2015	By Hire Purchase A/c (Scooter & LCD T.V.)	10,400
			1.01.2015	By Hire Purchase Debtors A/c (Scoter & LCD T. V.) (4 × 2,800) + (3 × 7,600) (W. N. 3)	34,000*
		90,200			**90,200**

Hire Purchase Debtors Account

Date	Particulars	₹	Date	Particulars	₹
1.05.2014	To Hire Purchase Stock A/c	11,000	1.05.2014	By Cash A/c	11,000
1.06.2014	To Hire Purchase Stock A/c	2,800	1.06.2014	By Cash A/c	2,800
1.07.2014	To Hire Purchase Stock A/c	10,400	1.07.2014	By Cash A/c	10,400
1.08.2014	To Hire Purchase Stock A/c	2,800	1.08.2014	By Cash A/c	2,800
1.09.2014	To Hire Purchase Stock A/c	2,800	1.09.2014	By Cash A/c	2,800
1.10.2014	To Hire Purchase Stock A/c	10,400	1.10.2014	By Cash A/c	10,400
1.11.2014	To Hire Purchase Stock A/c	2,800	1.11.2014	By Cash A/c	2,800
1.12.2014	To Hire Purchase Stock A/c	2,800	1.12.2014	By Cash A/c	2,800
1.01.2015	To Hire Purchase Stock A/c	10,400	1.01.2015	By Good Repossessed A/c	22,000
1.01.2015	To Hire Purchase Stock A/c	34,000	31.03.2015	By Balance c/d (For LCD T.V. only)	22,400
		90.200			90.200

Hire Purchase Adjustment Account

Date	Particulars	₹	Date	Particulars	₹
31.03.2015	To Profit & Loss A/c	21,700	1.5.2014	By Goods sold on hire purchase A/c (profit on hire purchase) (8,600+11,600)	20,200
			?????	By Goods Repossessed A/c	1,500
		21,700			21700

Goods Repossessed Account

Date	Particulars	₹	Date	Particulars	₹
01.01.2015	To Hire Purchase Debtors A/c	22,000	?	By cash A/c (Sales)	24,500
?	To cash A/c (Expenses)	1,000			
?	To Hire Purchase	1,500			

	Adjustment A/c				
		24,500			24,500

Working Notes:

1. Hire Purchase Price of
Scooter = Down payment + sum of Amount of all installments
= ₹5,000 + (₹2,800 × 12) = ₹38,600
LCD TV = ₹6,000 + (₹7,600 × 6) = ₹51,600

2. Profit on H. P. Sale = Hire Purchase Price- Cash Price
(38,600 + 51,600) – (30,000 + 40,000) = ₹20,200

3. Same customer has purchased both Scooter & LCD TV. Therefore, when there is default on 01.01.2015, all the remaining installments are to be shown as due.

Note: Alternatively the monthly entries in the 'Hire Purchase Stock A/c' can be consolidated by opening a 'Goods sold on Hire Purchase Stock A/c'. Likewise the monthly entries in the 'Hire Purchase Debtor A/c' can also be consolidated.

(c) A, B and C were carrying on a business in partnership, sharing profits and losses in the ratio of 5 : 3 : 2 respectively. The firm earned a profit of ₹3,60,000 for the accounting year ended 31st March, 2014 on which date the firm's Balance Sheet stood as follows:

Balance Sheet as at 31st March, 2014

Liabilities	₹	Assets	₹
A's Capital	7,00,000	Freehold Land and Building	8,00,000
B's Capital	5,70,000	Machinery	3,50,000
C's Capital	4,30,000	Furniture & Fixtures	1,02,000
Creditors	79,400	Stock	2,98,800
Outstanding Expenses	4,900	Debtors	1,60,000
		Cash at Bank	73,500
Total	17,84,300	Total	17,84,300

A died on 31st August, 2014. According to firm's partnership deed, in case of death of a partner:-

(i) Assets and Liabilities have to be revalued by an independent valuer.

(ii) Goodwill is to be calculated at two years' purchase of average profits for the last three completed accounting years and the deceased partner's capital account is to be credited with his share of goodwill.

(iii) The share of the deceased partner in the profits for the period between end of the previous accounting year and the date of death is to be calculated on the basis of the previous accounting year's profits. Post death of A,B & C will share profit in the ratio of 3:2.
Profits for the accounting years 2011 – 2012 and 2012 – 2013 were as follows: -

	₹
For the year ended 31st March, 2012	2,90,000
For the year ended 31st March, 2013	3,40,000

Drawings by A from 1st April, 2014 to the date of his death totaled ₹46,000.

On revaluation, Freehold Land and Building was appreciated by ₹1,00,000; Machinery was depreciated by ₹ 10,000 and a Provision for Bad Debts was created @ 5% on Debtors as on 31st March, 2014. P's sole heir was given ₹5,00,000 immediately and the balance along with interest @ 12% per annum was paid to him on 31st March, 2015.
Prepare Revaluation Account, A's Capital Account and A's Heir Account, giving important working notes. [12]

Answer:

Revaluation Account

Particulars	₹	₹	Particulars	₹
To Machinery		10,000	By Freehold Land & Building	1,00,000
To Provision for doubtful debts(5% of 1,60,000)		8,000		
To Capital accounts:				
A	41,000			
B	24,600			
C (Profit transferred)	16,400	82,000		
		1,00,000		1,00,000

A's Capital Account

Particulars	₹	Particulars	₹
To Drawings	46,000	By Balance b/d	7,00,000
To A's heir (Balance transferred)	11,00,000	By B's capital A/c	1,98,000
		By C's capital A/c	1,32,000
		By Profit and Loss Suspense A/c	75,000
		By Revaluation A/c	41.000
	11,46.000		11.46,000

A's Heir Account

Date	Particulars	₹	Date	Particulars	₹
31.08.2014	To Bank A/c	5,00,000	31.08.2014	By A's Capital A/c	11,00,000
31.03.2015	To Bank A/c	6,42.000	31.03.2015	By Interest A/c $\left(6{,}00{,}000 \times 12\% \times \frac{7}{12}\right)$	42,000
		11,42.000			11,42.000

Working Notes:

1. Calculation of gaining ratio of Partners B and C

	New share	Old share	Gaining share	Sacrificing share
A		5/10		5/10
B	3/5	3/10	$\frac{3}{5}-\frac{3}{10}=\frac{6-3}{10}=\frac{3}{10}$	
C	2/5	2/10	$\frac{2}{5}-\frac{2}{10}=\frac{4-2}{10}=\frac{2}{10}$	

2. Calculation of Goodwill

	₹
2011 – 12	2,90,000
2012 – 13	3,40,000
2013- 14	3,60,000
	9,90,000

Average Profit = 9,90,000/3 = ₹3,30,000

Good will = 3,30,000 × 2 = ₹6,60,000

Share of A in goodwill = $6,60,000 \times \frac{5}{10}$ = ₹3,30,000

Adjustment for A's share of goodwill through B's and C's capital accounts (in their gaining ratio 3:2):

B's capital A/c (3,30,000 × 3/5)	₹ 1,98,000
C' s capital A/c (3,30,000 × 2/5)	₹1,32,000

3. Share of A in Profits for the period between 01.04.2014 to 31.08.2014 i.e. till the date of death

1st April, 2014 to 31st August, 2014 = 5 months

Profit for year 2013 – 14 = ₹3,60,000

Estimated profit for 5 months = $3,60,000 \times \frac{5}{12}$ = ₹1,50,000

Share of P = $1,50,000 \times \frac{5}{10}$ = ₹75,000

4. (Answer any two)

(a) Mr. Burmani, the accountant of Sidhant Ltd., committed some errors in preparing the accounts of the concern for the year accounting year ending on 31.3.2015.
You are requested to show the necessary entries assuming

(1) There is no self-balancing system and .

(2) There is self-balancing system.

You may use Suspense Account, if required :

(i) Mr. Sen returned goods of the value of ₹1,200 which were entered in the sales day book and posted to the credit of his account.

(ii) Goods sold to Mr. Bhar for ₹2,000 was correctly recorded in the sales day book but wrongly posted as 20 to the debit of the account of Mr. Bhowmick.

(iii) Mr. Mitra returned goods of the value of ₹420 but this was posted to the debit of his account.

(iv) Discount allowed ₹4,000 were recorded in the Sales Ledger but were not adjusted in the Sales Ledger. [4]

Answer:

Sidhant Ltd.
Journal Entries

If there is no Self-balancing System	If there is Self- balancing System
1. Sales A/c……………………………Dr. 1,200 Sales return A/c…………………Dr. 1,200 To suspense A/c…………………… 2,400 [Goods returned and posted to Sales A/c and Sales Returns A/c not debited, now rectified]	1. (a) Same (b) General Ledger Adjustment A/c….Dr. 2,400 (in Sales Ledger) To Sales Ledger Adjustment A/c 2,400 (in General Ledger)
2. Bhar A/c…………………………..Dr. 2,000 To Bhowmick A/c 20 To Suspense A/c 1,980 [Sale to Bhar for ₹2,000 wrongly debited to Bhowmick A/c as ₹20, now rectified]	2. Same entry in sales Ledger.
3. Suspense A/c…………………. Dr. 840 To Mitra A/c 840 [Goods returned by Mitra debited to his A/c., now rectified]	3. Same entry in Sales Ledger.
4. Discount Allowed A/c……..…Dr.4,000 To Suspense A/c 4,000 [Discount Allowed but not adjusted in general Ledger, now rectified.]	4. Same entry in sales Ledger.

(b) Distinction between Self-Balancing System and Sectional-Balancing System [4]

Answer :

Distinction between Self-Balancing System and Sectional-Balancing System

Self-Balancing System	Sectional-Balancing System
1. Under it, all the three ledgers namely the Sales Ledger, the Purchase Ledger, and the General Ledger are made separately self-balancing. 2. Separate Trial Balance can be prepared at the end of each separate ledger. 3. Here adjustment accounts are prepared on complete double entry principle. 4. It is actually an extension of sectional balancing system.	1. Under it, only the General Ledger can be made self-balancing. 2. The Trial Balance may be prepared only in the General Ledger. 3. Here lists of Debtors or Creditors are prepared at the end of Debtors and Creditors Ledger. Only the General Ledger keeps Total Debtors A/c and Total Creditors A/c.

(c) From the following particulars obtained from the books of Mr. Jhunjhunwala, a trader, prepare Debtors Ledger Adjustment Account for the year ended 31st December, 2014:

01.01.2014: Opening Balance — ₹30,000

up to 31.12.14 : Credit Sales — ₹90,000; Sales Returns— ₹500; Cash received from Debtors— ₹ 40,000; Bills Receivable— ₹15,000; Discount Allowed to Debtors— ₹400; Bad Debts— ₹ 350; Transfer from another ledger— ₹750; Bill receivable endorsed to suppliers— ₹1,000; Bill receivable discounted— ₹200. [4]

Answer :

In General Leger of Mr. Jhunjhunwala
Debtors Ledger Adjustment Account

Dr. **Cr.**

Date	Particulars	Amount ₹	Date	Particulars	Amount ₹
1.1.14	To Balance b/f	30,000	31.12.14	By General Ledger Adjustment A/c :	
31.12.14	To General Ledger Adjustment A/c :			Cash Received	40,000
	Sales (Credit)			Bills Receivable	15,000
		90,000		Sales Returns	500
	Bills Receivable (Dishonoured)	1,500		Bad Debts	350
				Discount Allowed	400
				Transfer	750
			31.12.14	By Balance c/f	64,500
		1,21,500			1,21,500

Notes:

1. No entry is to be made in the above account for bill receivable endorsed to creditors. The usual entry is —
   Creditors A/c…………………………………………………….Dr.
   To Bills Receivable A/c
   The self balancing entry is —
   Creditors Ledger Adjustment A/c (in gen. ledgers) …………….Dr.
   To General Ledger Adjustment A/c (in creditors ledger)
2. For bill discounted - no self-balancing entry is required.

5. (Answer any two)

(a) From the following data, show Profit and Loss A/c (Extract) as would appear in the books of a contractor following Accounting Standard – 7:

	(₹ in Lakhs)
Contract Price (fixed)	**960.00**
Cost incurred to date	**600.00**
Estimated cost to complete	**400.00**

[4]

Answer:

Calculation of Estimated Total Cost

	(₹ in Lakhs)
Cost incurred to date	600
Estimated cost to completion	400
Estimated total cost in completing the contract	1,000

Percentage of completion (600/1000) × 100 = 60%

Revenue recognised as a percentage to contract price

= 60% of ₹960 lakhs = ₹576 lakhs

As per para 35 of AS 7 'Construction Contracts', when it is probable that total contract costs will exceed total contract revenue, the expected loss should be recognised as an expense immediately. Accordingly, expenses to be recognized in the Profit and Loss Account will be

	(₹ in Lakhs)
Total foreseeable loss (1,000 - 960)	40
Less: Loss for the current year (600 - 576)	(24)
Expected loss to be recognized immediately as per para 35 of AS 7	16

Profit and Loss A/c (An Extract)

	(₹ in Lakhs)		(₹ in Lakhs)
To Construction cost	600	By Contract price	576
To Estimated loss on Completion of contract	16		-
	?		?

(b) M/s. River Ltd. recognized ₹5.00 lakhs, on accrual basis, income from dividend during the year 2014-15, on shares of the face value of ₹25.00 lakhs held by it in Rock Ltd. as at 31st March, 2015. Rock Ltd. proposed dividend @ 20% on 10th April, 2015. However, dividend was declared on 30th June, 2015. Please state with reference to relevant Accounting Standard, whether the treatment accorded by River Ltd. is in order. [4]

Answer:

Para 8.4 of AS 9 "Revenue Recognition" states that dividend from investments in shares are not recognized in the statement of Profit and Loss until the right to receive dividend is established.

In the given case, the dividend is proposed on 10th April, 2015, while it was declared on 30th June, 2015. Hence, the right to receive dividend is established on 30th June, 2015 only. Therefore, on applying the provisions stated in the standard, income from dividend on shares should be recognized by River Ltd. in the financial year 2015- 2016 only.

Therefore, the recognition of income from dividend of ₹5 lakhs, on accrual basis, in the financial year 2014-15 is not in accordance with AS 9.

(c) Write a note on — MOU [The Minutes of Usage]. [4]

Answer:

The Minutes of Usage (MOU) is the total duration of minutes for which a customer uses a telecommunication network during a given month. In the nascent days of mobile telecommunication in India, airtimes rates were very high and a customer had to pay for incoming calls as well. During those days, the MOU ranged from 110 to 150 minutes per month, as customers were wary of making calls.

However, with falling rates, the MOU has steadily reduced. As on September 2005, the blended MOU was in the range of 367 minutes signifying a multi-fold increase in network utilization.

The MOU is also analysed between prepaid and post-paid services and further drilled down between incoming and outgoing. In the current billing system, a customer does not pay for any incoming calls. However, incoming calls bring in revenue for a telecom operator in the form of IUC charges paid by other service providers for terminating calls.

6. Answer any two.

(a) On 1st April, 2014, Vikash has 50,000 equity shares of P Ltd. at a book value of ₹15 per share (face value ₹10 each). He provides you the further information:

(1) On 20th June, 2014, he purchased another 10,000 share of P Ltd. at ₹16 per share.

(2) On 1st August, 2014, P Ltd. issued one equity bonus share for every six shares held by the shareholders.

(3) On 31st October, 2014 the directors of P Ltd. announced a right issue which entitle the holders to subscribe three shares for every seven shares at ₹15 per share. Shareholders can transfer their rights in full or in part.

Vikash sold 1/3rd of entitlement to Prasad for a consideration of ₹2 per share and subscribe the rest on 5th November, 2014.

You are required to prepare Investment A/c in the books of Vikash for the year ending 31st march, 2015. [8]

Answer:

In the Books of Vikash
Investment Account
(Equity shares in P Ltd.)

Date	Particulars	No. of shares	Amount ₹	Date	Particulars	No. of Shares	Amount ₹
01.04.14	To Balance b/d	50,000	7,50,000	5.11.14	By Bank A/c (sale of rights) (W. N. 3)	-	20,000
20.06.14	To Bank A/c	10,000	1,60,000	31.03.15	By balance c/d (Bal. Fig)	90,000	11,90,000
01.08.14	To Bonus issue (W. N. 1)	10,000	-				
05.11.14	To Bank A/c (right shares) (W. N. 4)	20,000	3,00,000				
		90,000	12,10,000			90,000	12,10,000

Working Notes:

(1) Bonus share = $\frac{50,000+10,000}{6}$ = 10,000 shares

(2) Right share = $\frac{50,000+10,000+10,000}{7} \times 3$ = 30,000 shares

(3) Sales of right = 30,000 shares × $\frac{1}{3}$ × ₹2 = ₹20,000

(4) Rights Subscribed = 30,000 shares × $\frac{2}{3}$ × ₹15 = ₹3,00,000

(b) M/S Ashim Electricals sends goods to its customers on sale or returnable basis. The following transactions took place during January to March 2015:

2011		**₹**
January- 10	**Sent goods to customers on sale or returnable basis at cost plus 25%**	**5,00,000**
January – 30	**Goods returned by customers**	**2,00,000**
February – 28	**Received letter of approval from customers**	**2,00,000**
March -31	**Goods with customers awaiting approval**	**1,00,000**

Vijoy Electrical records sale or return transactions as ordinary sales transaction. You are required to pass the necessary journal entries in the books of account assuming that the accounting year closes on 31st March, 2015. **[8]**

Answer:

In the Books of M/s. Ashim Electricals
Journal Entries

Date 2015	**Particulars**	**Debit ₹**	**Credit ₹**
Jan. 10	Sundry Debtors Account Dr. To Sales Account (Being the goods sent to customers on sale or returnable basis)	5,00,000	 5,00,000
Jan. 30	Returns Inward Account* Dr. To Sundry Debtors Account (Being the goods returned by customers as not approved or cancellation of sales on return of goods)	2,00,000	 2,00,000
Feb. 28	No entry on receiving letter of approval from the customer		
Mar. 31	Sales Account Dr. To Sundry Debtors Account (Being cancellation of original entry at the year end on goods with customers awaiting approval)	1,00,000	 1,00,000
Mar. 31	Stock with customers on sale or return Account Dr. To Trading Account (Refer W.N) (Being the adjustment for cost of goods lying with customers awaiting approval at the year end)	80,000	 80,000

*Alternatively, 'Sales account can be debited in place of 'Returns Inward account'.
Working Note:

Cost goods with customers = $\frac{₹1,00,000}{125} \times 100 = ₹80,000$

(c) On 1st January 2015, A's Account in B's Ledger showed a debit balance of ₹5,000. The following transactions took place between B and A during the quarter ended 31st march 2015:

2015	**Particulars**	**₹**
Jan.11	**B sold goods to A**	**6,000**

Jan. 24	**B received a Promissory Note from A, 3 months date**	**5,000**
Feb. 01	**A sold goods to B**	**10,000**
Feb. 04	**B sold goods to A**	**8,200**
Feb. 07	**A returned gods to B**	**1,000**
March 01	**A sold goods to B**	**5,600**
March 18	**B sold goods to A**	**9,200**
March 23	**A sold goods to B**	**4,000**

Accounts were settled on 31st March 2015, by means of a cheque. Prepare an account Current to be submitted by B to A as on 31st March 2015, taking interest into account at 10% per annum. Calculate Interest to the nearest multiple of a rupee. [8]

Answer:

IN THE BOOKS OF Y (LEDGER FROM 1ST JAN. 2015 TO 31ST MARCH 2015)
X IN ACCOUNT CURRENT WITH Y (INTEREST UPTO 31ST MARCH 2015, AT 10% P. A.)

Date	Particulars	₹	Days	Product	Date	Particulars	₹	Days	Product
Jan. 1	To Bal. b/d	5,000	90	4,50,000	Jan. 24	By B/R	5,000	(27)	(1,35,000)
Jan. 11	To Sales	6,000	79	4,74,000	Feb. 1	By Purchases	10,000	58	5,80,000
Feb. 4	To Sales	8,200	55	4,51,000	Feb. 7	By Sales Returns	1,000	52	52,000
Mar. 18	To Sales	9,200	13	1,19,600	Mar. 1	By Purchases	5,600	30	1,68,000
Mar. 31	To Interest $\left[\frac{7,97,600 \times 10\%}{365}\right]$	219			Mar. 23	By Purchases	4,000	8	3,20,000
					Mar.31	By Bal. of Products			7,97,600
						By bal. c/d	3,019		
		28,619		14,94,600			28,619		14,94,600

7. Answer any two.

(a) (i) State the reason why an immediate shift to the ODRC Method Is not recommended. [4]

Answer :

An immediate shift to the ODRC Method Is not recommended due to:
– Problems in producing a detailed Asset Register.
– Absence of norms for standard lives of assets.
– Absence of construction cost estimates
– Lack of data on future load growth.

(a) (ii) From the following information calculate Return on Equity as per Regulation 21 of the Central Electricity Regulatory Commission (Terms and Conditions of Tariff) Regulations, 2004:

1. **Date of Commercial Operation of COD = 1st April 2010**
2. **Approved Opening Capital Cost as on 1st April 2010 = ₹1,50,000**

3. **Details of allowed Additional Capital Expenditure. Repayment of Loan and Weighted Average Rate of Interest on Loan is as Follows**

	1st year	2nd year	3rd year	4th year
Additional Capital Expenditure (Allowed)	**10,000**	**3,000**	**2,000**	**2,000**

[4]

Answer:

COMPUTATION OF RETURN ON EQUITY

Particulars	1st year	2nd year	3rd year	4th year
A. Opening Equity (30%)	45,000	48,000	48,900	49,500
B. Additional Equity (30%)	3,000	900	600	600
C. Closing Equity (A + B)	48,000	48,900	49,500	50,100
D. Average Equity [(A + C)/2]	46,500	48,450	49,200	49,800
E. Return on Equity (D × 14%)	6,510	6,783	6,888	6,972

(b) (i) Indian Insurance Co. Ltd. furnishes you with the following information:

1. **On 31.03.2014 it had reserve for unexpired risks to the tune of ₹40 crores. It comprised of ₹15 crores in respect of marine insurance business; ₹20 crores in respect of fire insurance business and ₹5 crores in respect of miscellaneous insurance business.**
2. **It is the practice of Indian Insurance Co. Ltd. to create reserves at 100% of net premium income in respect of marine insurance policies and at 50% of net premium income in respect of fire and miscellaneous income policies.**
3. **During 2014 - 2015, the following business was conducted:**

(₹ in cores)

	Marine ₹	Fire ₹	Miscellaneous ₹
Premia collected from:			
(a) Insured's in respect of Policies issued	**18**	**43**	**12**
(b) Other insurance companies in respect of risks undertaken	**7**	**5**	**4**
Premia paid/payable to other insurance companies on business ceded	**6.7**	**4.3**	**7**

Indian Insurance Co. Ltd. asks you to pass journal entries relating to "Unexpired risks reserve". [6]

Answer:

JOURNAL OF INDIAN INSURANCE CO. LTD. **(₹ in Cores)**

Particulars		L. F.	Dr. (₹)	Cr. (₹)
Reserve for Unexpired Risk A/c To Marine Revenue A/c (Being the opening balance t/f to Revenue A/c)	Dr.		15	 15
Reserve for Unexpired Risk A/c To Fire Revenue A/c (Being the opening Balance t/f to Revenue A/c)	Dr.		20	 20
Reserve for Unexpired Risk A/c To Miscellaneous Revenue A/c (Being the opening balance t/f to Revenue A/c)	Dr.		5	 5

Marine Revenue A/c Dr. To Reserve for Unexpired Risk A/c (Being the reserve for unexpired risk created @ 100% of net premium of ₹18.30 (i.e. 18 + 7- 6.7) in respect of Marine insurance business)		18.30	 18.30
Fire Revenue A/c Dr. To Reserve for Unexpired Risk A/c (Being the reserve for unexpired risk created @ 50% of net premium of ₹43.70 (i.e. 43 + 5 - 4.3) in respect of fire Insurance Business)		21.85	 21.85
Miscellaneous Revenue A/c Dr. To Reserve for Unexpired Risk A/c (Being the reserve for unexpired risk created @ 50% of net premium of ₹ 9 (i.e. 12 + 4 - 7) in respect of Misc. Insurance business)		4.50	 4.50

(b) (ii) Packing credit outstanding from Food Processors ₹60 lakhs against which the bank holds securities of ₹20 lakhs (Realisable value 75%). 40% is covered by ECGC limited to ₹15 lakhs. The above advance has remained doubtful upto 3 years. Calculate the amount of provision required to be made. [2]

Answer:

		(₹ in Lakhs)
A.	Amount Outstanding	60
B.	Less: realizable value of Security	(15)
		45
C.	Less: ECGC cover (40% of ₹45 lakhs limited to ₹15 lakhs)	(15)
D.	Unsecured Portion [A- B- C]	30
E.	Provision required for unsecured portion @ 100%	30
F.	Provision required for secured portion @ 40%	6
G.	Total Provision required [E + F]	36

(c) Given below is an extract from the Trial Balance of Jamuna Bank Ltd. as at 31st March, 2015.

	₹	**₹**
Bills Discounted & Purchased	**50,00,000**	
Rebate on Bills Discounted (at 01.04.2012)		**16,685**
Discount Received		**2,00,000**

An analysis of the bills discounted @ 16% p.a. and held on 31.3.2015 is as follows:-

Date of Bill	**Amount (₹)**	**Term (Months)**
Feb. 9, 2015	**5,00,000**	**4**
Feb. 17, 2015	**6,00,000**	**3**
March 6, 2015	**4,00,000**	**4**

Required:

(a) Calculate the amount to be credited to Profit & Loss Account in respect of Discount:

(b) Pass the necessary Journal entries. [8]

Solution:

(a) The amount of discount to be credited P & L A/c will be ₹1,70,000

(b) **JOURNAL**

Particulars	L.F.	Dr.(₹)	Cr. (₹)
Rebate on Bills Discounted A/c Dr. To Discount A/c (Being the transfer of Unexpired discount as on 1.4.2015 to Discount A/c)		16,685	 16,685
Discount A/c Dr. To Rebate on Bills Discounted A/c To Profit & Loss A/c (Being the unexpired discount of ₹46,685 carried over to the next year & balance transferred to P & L A/c)		2,16,685	 46,685 1,70,000

Working Notes:

(i) In the Profit & Loss Account, the discount on bills will not appear as a separate item but will be included in the heading 'Interest and Discount' on the credit side.

(ii) Calculation of Rebate on Bills Discounted

Total Annual Discount @ 16% p.a.	Date of Maturity	No. of Days After 31st March	Unexpired Discount for days after 31st March
80,000	June 12	73	16,000
96,000	May 20	50	13,151
64,000	July 9	100	17,534
			Total 46,685

(iii) Date of Maturity is after including three days for grace.

(iv) Unexpired Discount has been calculated by employing the following formula :

= Total Annual Discount p.a. x (No. of days after 31st March ÷ 365)