

Paper 5- Financial Accounting

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

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

Paper 5- Financial Accounting

Full Marks:100

Time allowed: 3 hours

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

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

- (i) Mention any two items of cost that are excluded from cost of inventories (AS – 2).
- (ii) Vivek Ltd. undertook a construction Contract for ₹100 Crores in April. The cost of construction was initially estimated at ₹70 Crores. The contract is to be completed in 3 years. While executing the contract, the company estimated the cost of completion of the contract at ₹106 Crores. Can the Company provide for the expected loss in the books of accounts for the year ended 31st march?
- (iii) A and B are partners in a firm sharing profits in the ratio of 4:3. They agreed to admit C in the firm for 1/6th share in profit. Compute the new profit sharing ratio of A, B and C.
- (iv) Purchase Cost of machinery ₹7,20,000; Carriage inwards ₹15,000; Transit insurance ₹ 8,000; Establishment Charges ₹25,000; Workshop Rent ₹25,000; Salvage value ₹50,000 and estimated working life 8 years. On the basis of straight line method what will be the amount of depreciation for the third year?
- (v) Arti Ltd. purchased a machine on hire purchase system for a cash price ₹5,00,000 to be paid as ₹ 78,700 cash down and the balance by three equal annual installment of ₹ 2,00,000 each. If interest is charged @ 20% per annum then what will be the amount of interest payable on second installment?
- (vi) X Ltd. maintains three Debtors Ledgers viz. (A – J) Debtors ledger, (K – P) Debtors ledger and (Q – Z) Debtors Ledger. Debtors list include ₹5,000 owed by Miss Mukherjee who became Mrs. Banerjee after marriage. Give the necessary journal entries for transfer assuming Self Balancing System.
- (vii) Net Profit ₹2,40,000, Turnover of last accounting year ₹40,00,000, Standing charges (out of which ₹80,000 have not been insured) ₹5,60,000. Special Circumstance Clause in the Policy allows for increase in the rate of Gross Profit by 2% . Compute the G.P Ratio after increment.
- (viii) From the following particulars, calculate the cost of goods of received by the consignee:

Goods Consigned	1,000 kg at ₹100 per kg.
Consignor's Expenses	₹8,400
Consignee's Expenses —	
Landing Charges	₹4,600
Carriage to Godown	₹400

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Godown Rent	₹600
Advertisement	₹1,400
Sales made by Consignee	900 kg at ₹150 per kg.
Commission Charged by consignee	5% on sales

(ix) In X bank Ltd. the doubtful assets (more than 3 years) as on 31.03.2013 is ₹1,000 lakhs. The value of security (including DICGS 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?

(x) Discuss the constitution of Central Electricity Authority.

2. (Answer any two)

(a) On 31.03.2015, the date of closing of the financial year, a trader contained the following balances of Nominal Accounts:

Purchases ₹8,640; Sales ₹14,290; Return Outwards ₹780; Carriage Inwards ₹940; Wages ₹2,920; Salaries ₹3,100; Discount Received ₹440 and Bad Debt ₹100.

The Closing Stock was valued at ₹13,000.

Show the Closing Journal Entries related to the preparation of the Trading and Profit & Loss Account. **[4]**

(b) State with reasons the nature of expenditure or receipts in each of the following cases :

(i) Freight on new machine ₹5,000 and its installation cost ₹2,500.

(ii) Old Furniture sold for ₹800 (cost ₹4,000 but written down value ₹900).

(iii) ₹1,50,000 spent for increasing the sitting capacity of a cinema hall and ₹7,500 paid for painting it.

(iv) Daily repairing cost of machineries of ₹5,000. **[4]**

(c) Rectify the following errors by passing necessary journal entries:

(i) Goods taken by the proprietor ₹3,000 for gift to his daughter were not recorded at all.

(ii) ₹3,000 received from Niraj against debts previously written off as bad debts have been credited to his personal account.

(iii) Received interest ₹300, posted to loan account.

(iv) A cheque received from Vishal, a debtor, for ₹4,000 was directly received by the proprietor who deposited it into his personal bank account. **[4]**

3. (Answer any two)

(a) X, Y and Z are in partnership sharing Profits and Losses in the ratio 2: 2: 1. Partnership deed provides that all the partners are entitled to interest @ 9% per annum on fixed capital of ₹ 10,00,000 contributed in profit sharing ratio. Z is entitled for 10% commission of net profit after such commission, for special performance.

On 01/09/2014, it was decided to retire X on health grounds and admit A, the son of X as partner with 1/5th share in Profit and Loss: other decisions taken on this date were as follows:

(i) Firm's fixed capital to be raised to ₹15,00,000 and partners to maintain fixed capital in profit sharing ratio and, interest on capital shall be paid @ 10% per annum from 01/09/2014.

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- (ii) No commission to be paid to Z from 01/09/2014.
- (iii) Goodwill is assessed at ₹3,00,000.
- (iv) X was paid ₹2,50,000 in cash on retirement.
- (v) Balance claim payable to X was to be credited to A's fixed capital account and current account.
- (vi) Profit for the accounting year 2014-15 before interest on capital, Z's commission was ₹ 9,00,000.

You are required to prepare:

- Profit and Loss Appropriation A/c of the firm for the year ended 31st March, 2015.
- Partners Current A/cs.

[12]

- (b) (i) Ping-Pong Limited has made plans for the next year 2015-16. It is estimated that the company will employ total assets, of ₹ 90,00,000; 30% of assets being financed by debt at an interest cost of 10% p.a. The direct costs for the year are estimated at ₹ 50,00,000 and all other operating expenses are estimated at ₹7,50,000. The sales revenue are estimated at ₹85,00,000. Tax rate is assumed to be 30%. Required to calculate:

- Net profit margin;
- Return on Assets;
- Asset turnover; and
- Return on Equity.

[8]

- (b) (ii) On 01.04.2010 a machine was purchased at a cost of ₹3,50,000 and it was expected to be used for 10 years without having any residual value. At the beginning of 2014 it is revalued at ₹2,94,000. How much should be the amount of depreciation for the year 2014?

[4]

- (c) The proprietors of Dhoora Departmental store wish to ascertain approximately separate net profits of their two particular departments A and B for the year ended 31st March, 2015. It is not possible to take stock on that date. However, normal rates of Gross Profit (before charging direct expenses) for the department concerned were 40% and 30% on sales respectively. There are six departments in the stores. The following figures were extracted from the books for the year ending 31st March, 2015:

	Department A (₹)	Department B (₹)
Stock (April 1, 2014)	3,00,000	2,80,000
Sales	14,00,000	12,00,000
Purchases	9,00,000	7,20,000
Direct Expenses	1,83,000	2,84,000

The total indirect expenses of all the six departments for the period were ₹3,60,000. These expenses (except one-third which is to be divided equally) are to be charged in proportion to departmental sales. The total sales of the other departments were ₹14,00,000. The Manager of each department is also entitled to a commission of 2 % on the turnover of his department. Prepare Departmental Trading and Profit & Loss Account in columnar form for the year ending 31st March, 2015 making a stock reserve of 5% for each department on the estimated value of stock on 31st March, 2015.

[12]

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4. (Answer any two)

- (a) Messers Lion & Co. are maintaining accounts on self-balancing system. On 31.3.2015 the general ledger disclosed the following balances:

Sales ledger adjustment account (Dr.) – ₹ 35,235; Purchases ledger adjustment account (Cr.) – ₹ 15,530.

On scrutinizing the ledgers, the following mistakes were noticed:

- (i) A credit purchase of ₹ 4,300 has been credited to the sales ledger adjustment account. In the subsidiary books, the party's account shows a debit balance in the sales ledger and a credit balance in the purchases ledger.
- (ii) ₹ 4,750 were due from Mr. X in the sales ledger as against ₹ 7,740 due to him for purchases made and entered in the purchase ledger.

Show the necessary journal entries.

[4]

- (b) How will you show the following items in General Ledger Adjustment Account in Debtors Ledger:

		₹
(a)	Transfer from Debtors' Ledger to Creditors' Ledger	1,100
(b)	Transfer from Creditors' Ledger to Debtors' Ledger	1,900
(c)	B/R endorsed to Creditors	4,000
(d)	Endorsed Bills dishonored	1,000
(e)	Bad Debts written off (after deducting bad debts recovered ₹300)	2,200
(f)	Provision for Doubtful Debts	550
(g)	Provision for Discount on Debtors	1,000
(h)	Reserve for Discount on Creditors	2,000
(i)	Cash Sales	3,000
(j)	Cash Purchases	4,000
(k)	Bill Receivable Collected on maturity	5,000
(l)	Bills Receivable discounted	6,000
(m)	Bills Payable matured	7,000
(n)	Discount allowed	1,500
(o)	Discount received	600
(p)	Allowances from Creditors	3,200
(q)	Discount allowed to debtors ₹500 was recorded as discount received from creditors.	
(r)	Closing Debtors Balance (As per General Ledger Adjustment Account)	60,000 (Cr.)
(s)	Closing Creditors Balance (As per General Ledger Adjustment Account)	30,000 (Cr.)

[4]

- (c) From the following information, prepare Total Creditors Account for the year ending on 31st March 2015:

Particulars	₹	Particulars	₹
Creditors as on 1.04.2014	3,00,000	Cash paid to creditors	2,00,000

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Credit Purchases	12,20,000	Cheque issued to Creditors	4,00,000
Returns Outward	20,000	Bills Payables accepted	6,00,000
Discount Received	10,000		

[4]

5. (Answer any two)

(a) On 31st October 2014, Uma Construction Ltd. undertook a contract to construct a flyover for ₹430 Crores. On 31st March 2015, the company found that the Work is Certified for ₹200 Crores and Work to be Certified is for ₹70 Crores. Prudent estimates of additional Cost for Completion was ₹180 Crores. What amount should be charged to Revenue in the Financial Accounts for the year ended 31st March 2015 as per AS -7? [4]

(b) While finalising the Accounts for the year 2014 -15 it was realised that XY Ltd. stands to receive ₹ 10 lakh from its customers in respect of sales made in 2014-15 due to price revision granted by the Government.

You are required to advise the Company regarding the treatment of the amount in the Accounts for the year quoting relevant Accounting Standard. [4]

(c) State what is Interconnection Usage Charges (IUC) in relation to telecommunication services. [4]

6. (Answer any two)

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

- On 20th June, 2014, he purchased another 10,000 shares of M Ltd. at ₹ 16 per share.
- On 1st August 2014, M Ltd. issued one equity bonus share for every six shares held by the shareholders.
- On 31st October, 2014, the directors of M 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.

Mitul sold 1/3rd of entitlement to Pratul 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 Mitul for the year ending 31st March, 2015. [8]

(b) J of Jamsedpur consigned 50 tilling machines costing ₹4,000 each to B of Burdwan. J incurred the following expenses in dispatching the goods :

Carriage — ₹ 2,120; Insurance — ₹ 19,380; Freight— ₹ 3,500

2 machines were damaged in transit beyond repairs and 3 other machines were yet to be received by B. The latter sold 30 machines at a profit of ₹ 1,500 each and charged a commission of 5% on sales.

He paid the following expenses :

Unloading Charges— ₹ 3,000; Warehouse Rent— ₹ 4,000; Salesman's Salary, etc.— ₹ 5,000

Show the Consignment Account in the books of J. [8]

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- (c) (i) Electronics Services Ltd. sends out its Accounting Machines costing ₹ 200 each to their customers on Sale or Return basis. All such transactions are, however, treated like actual sales and are passed through the Day Book. Just before the end of the financial year, i.e. on December 24, 2014, 300 such Accounting Machines were sent out at an Invoice Price of ₹ 285 each, out of which only 90 Machines are accepted by the customers at ₹ 250 each and as to the rest a report is forthcoming.

Show the Journal entries in the books of the company for the purpose of preparing the final accounts for the year ended December 31, 2014. [4]

- (c) (ii) A fire occurred on the premises of a merchant on June 15, 2014 and a considerable part of stock was destroyed. The value of the stock saved was ₹ 4,500.

The books disclosed that on April 1, 2014, the stock was valued at ₹ 36,750; the purchases to the date of fire amounted to ₹ 1,09,940 and the sales to ₹ 1,56,500. On investigation it is found that during the past five years the average gross profit on sales was 36%.

You are required to prepare a statement showing the amount the merchant should claim from the insurance company in respect of stock destroyed by fire. [4]

7. (Answer any two)

- (a) The following is an extract from the Trial Balance of Raunak Bank Ltd. as at 31st March, 2015.

Particulars	₹	₹
Bill discounted	1,54,50,000	
Rebate on bills discounted not yet due, April 1, 2014		91,503
Discount received		4,36,500

An analysis of the bills discounted as shown above the following:

Date of bills	Amount	Term months	Discounting percentage p.a.
January 13, 2015	22,50,000	4	12
February 17, 2015	18,00,000	3	10
March 6, 2015	12,00,000	4	11
March 16, 2015	6,00,000	2	10

Find out the amount of discount received to be credited to Profit and Loss Account and pass appropriate Journal Entries for the same. [8]

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- (b) The trial balance of Fastest Electric Supply Ltd. for the year ended 31st March, 2014 is as below:

		(₹'000)	
Particulars	Dr.	Cr.	
Share Capital:			
Equity Shares of ₹10 each		500,00	
12% Preference Shares of ₹100 each		150,00	
Patents and trade mark	25,04		
15% Debentures		247,00	
16% term loan		153,00	
Land (additions during the year 20,50)	12,450		
Building (additions during the year 50,80)	351,34		
Plant & Machinery	570,58		
Mains	45,24		
Meters	31,50		
Electrical Instruments	15,30		
Office Rurniture	24,50		
Capital Reserve		40,20	
Contingency Reserves		120,30	
General Reserve		10,00	
Transformers	164,40		
Opening Balance of Profit & Loss Account		3,50	
Profit for the year 2013-14 subject to adjustments		50,00	
Stock in hand	120,50		
Sundry Debtors	62,46		
Contingency reserve Investments:			
SBI Bonds – 2020	100,10		
Other Investments	20,00		
Cash & bank	32,54		
Public Lamps	30,40		
Depreciation Fund		258,16	
Sundry Creditors		65,24	
Proposed dividend		121,00	
	1718,40	1718,40	

During 2013-14 1,00,000, 12% Preference Shares were redeemed at a premium of 10%. Calculate the amount of Share Capital, Reserves and Surplus and Tangible Assets to be recognised in the balance sheet as on 31st March,2013.

Adjustments:

- (i) Transfer to Contingency Reserve ₹1,70,000 & to General Reserve ₹2,00,000;
- (ii) Loss on Contingency Reserve Investment ₹10,000;
- (iii) Make a Provision for debts considered doubtful of ₹1,014,000.

[8]

- (c) Discuss —

- (i) Re-insurance;
- (ii) Double Insurance;
- (iii) Main features of Electricity Act,2003.

[2+1+5=8]