

Paper 5- Financial Accounting

PTP_Intermediate_Syllabus 2012_June2015_Set 1

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) An industry borrowed ₹40,00,000 for purchase of machinery on 1.6.2014. Interest on loan is 6% per annum. The machinery was put to use from 01.01.2015. What is the amount to be charged as borrowing cost for the year ended 31.3.2015 as per AS 16.
- (ii) During a year, Subscription received was ₹ 42,000. It includes ₹ 1,600 for last year and ₹ 600 for next year. Also ₹5,000 is still to be received for current year. Calculate the amount of Subscription to be credited to Income and Expenditure Account.
- (iii) On 1st April, 'X' purchased 12% debentures in 'M' 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 Debentures at the time of acquisition.
- (iv) A, B and C are Partners sharing Profits and Losses in the ratio 5:3:2. B retired from the Firm. Partners A and C decided to take his share in 3:2 ratio. Calculate the gaining Ratio?
- (v) How would you rectify the following errors made during the year ending 31st March of K.K. company, who keeps their sales ledger on the Self Balancing system–
- The Sales Book of previous month, i.e., February, was overcast by ₹ 2,000.
 - Goods returned ₹1,000 by Megha Ltd. Were not entered in the books.
- Pass necessary Journal Entries.
- (vi) Goods costing ₹ 6,30,000 were sent out to consignee at a profit of 25% percent on cost price. Consignee sold 2/3rd goods for ₹ 6,00,000. Consignee was entitled to an ordinary commission of 3 percent on sales at invoice price and over-riding commission of 20 percent of any surplus realized. Compute the total commission.
- (vii) Goods are transferred from Department P to Department Q at a price so as to include a profit of 25% on transfer price. If the value of closing stock of Department Q is ₹ 20,000, then determine the amount of stock reserve on closing stock.
- (viii) Amrit Ltd. has signed at 31st Dec, the Balance Sheet date, a contract where the Total revenue is estimated at ₹30 Crores and Total Cost is estimated at ₹40 Crores. No work began on the contract. Is the Contractor required to give any accounting effect for the year ended 31st December?
- (ix) Accurate Insurance Company Ltd. received ₹ 15,45,800 as Premium on New Policies and ₹3,14,400 as Renewal Premium. The Company received ₹2,35,800 towards Re-

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insurance Accepted and paid ₹1,83,400 towards Re-Insurance Ceded. How much will be credited to Revenue Account towards Premium?

- (x) Calculate the interest income to be recognised for X Bank Ltd. for the year ended 31.03.2014 from the following information: (₹ in Crores)

Interest	Total Interest collected	Earned but not collected		Expected Recovery on NPA
		On PA	On NPA	
Interest on Cash Credit	2,000	800	840	20
Interest on Overdraft	600	200	700	Nil
Interest on Term Loan	2,000	80	1,000	40

2. (Answer any two)

- (a) There was a difference in Trial Balance of Shri Viman Sen, a trader, on 31st December, 2014 and the difference in books was carried to a Suspense Account and the books were closed. Subsequently on going through the books, the following errors were located:

- ₹ 2,296 paid for Repairs to Motor Car was debited to Motor Car Account as ₹ 696.
- ₹ 400 being Purchase Returns posted to the debit of Purchases Account.
- While carrying forward total of one page in Sumit Basu's Account, the amount of ₹ 1,000 was written on the credit side instead of the debit side.
- A cheque of ₹ 6,100 received from Sankari Das (after allowing her a discount of ₹ 92) was endorsed to Pranab Garg in full settlement of ₹ 7,000. The cheque was finally dishonoured but no entries were passed in the books.

Give the Journal entries to rectify the above transactions

[4]

- (b) Mr. Banerjee request you to Amended Cash Book for January 2014, as his cash clerk reported a figure of ₹23,030 (credit) as on 31.1.2014. Scrutiny revealed the following discrepancies:

- Cheques issued and deposited by the cash clerk in January 2013, were ₹30,000 and ₹14,000 respectively. However, against the above, the Bank had paid out and debited cheques worth ₹18,000 only and cleared and credited cheques worth ₹8,000 only, by 31.1.2013.
- A customer had paid in ₹12,800 directly into Mr. Banerjee's Bank account, the effect which was not recorded in the Cash Book.
- Bank charges of ₹90 charged was debited twice in the Cash Book.
- Total cash withdrawals of ₹6,000 by self and bearer cheques for office use, were recorded erroneously as ₹10,000 in the Cash Book.

[4]

- (c) List the items that are not considered to be inventory as per AS 2 though appears to be inventory in common parlance.

[4]

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3. (Answer any two)

(a) (i) Mr. P, purchased a machinery on hire purchase basis from Mr. Q on the following terms:

- Cash down payment - 33½%;
- Three half-yearly instalments of ₹8,200, ₹7,440 and ₹6,300, the first to commence at the end of 6 months from the date of cash down payment;
- Interest to be charged by the vendor 10% p.a. calculated on half yearly rates.

Compute the Cash Price of the Machinery.

[4]

(ii) Calculate the invoice price of the Goods sent to branch and the profit included therein in each of the following alternative cases:

Case – 1: Goods sent to Branch (at cost) ₹ 1,20,000. Goods are invoiced to the branch to give a gross margin of 20% on cost price.

Case – 2: Goods sent to branch (at cost) ₹ 1,20,000. Goods are invoiced to the Branch at 20% on Invoice price.

[2+2=4]

(iii) The following data has been abstracted from the annual accounts a Company-

Particulars	₹ in lakhs	Particulars	₹ in lakhs
Share Capital: 40,000 Equity Shares of ₹10 each	400	Profit before Tax	280
General Reserve	300	Provision for Tax	168
Investment Allowance Reserve	100	Proposed Dividend	20
15% Long term loan.	600		

Calculate the following ratios – Return on Capital Employed (ROCE).

[1+1+1+1=4]

(b) The following are the items of receipts and payments Account of India Sports Club:

Receipts	₹	Payments	₹
Opening balance (01.01.14)	4,200	Manager's salary	1,000
Entrance Fees (2013)	1,000	Printing & Stationery	2,600
Entrance Fees (2014)	10,000	Advertising	1,800
Subscriptions (2013)	600	Fire Insurance	1,200
Subscriptions (2014)	15,000	Investments Purchased	20,000
Interest Received on Investments	3,000	Closing balance on 31.12.14	7,600
Subscriptions (2015)	400		
	34,200		34,200

It was ascertained from enquiry that the following represented a fair picture of the Income & Expenditure of the club for the year 2014 for audit purposes:

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Expenditure	₹	Income	₹
Manager's salary	1,500	Entrance Fees	10,500
Printing & stationery	2,000	Subscriptions	15,600
Add: Accrued	400	Interest on Investments	4,000
Advertising (accrued nil)	1,600		
Audit fees	500		
Fire Insurance	1,000		
Depreciation	4,940		
Excess of Income over Expenditure	18,160		
	30,100		30,100

You are required to show the Balance Sheets of the Club as on 31.12.2013 and 31.12.2014, it being given that the values of the fixed assets as on 31.12.13 were: Building ₹44,000, sports Equipment ₹25,000 and Furniture ₹4,000. The rates of depreciations were: Building 5%, sports Equipments 10% and Furniture 6%. **[12]**

- (c) (i)** A and B were carrying on the business as equal partners. It was agreed that A should retire from the firm on 31st March, 2014 and that his son H should join B from 1st April 2014 and should be entitled to one-third of the profits of the partnership.

The balances in the firm's books on 31st March, 2014 were as follows:

Liabilities	₹	Assets	₹
A's Capital Account	34,000	Cash at Bank	11,000
B's Capital Account	28,200	Sundry Debtors	14,100
Sundry Liabilities	7,800	Furniture	14,200
		Building	20,700
		Goodwill	10,000
	70,000		70,000

On 31st March, 2014, Goodwill was valued at ₹ 22,000 and Building at ₹ 24,000. It was also agreed that enough money should be introduced to enable A to be paid out and leave ₹10,000 cash by way of working capital. B and H were to provide such sum as would make their capitals proportion to their shares of profits. A agreed to make a friendly personal loan to H by transfer from his Capital Account of half the amount which H had to provide.

B and H paid in the cash due from them on 7.4.2014 and the amount due to A was paid out on the same day.

Set out Journal Entries with full narration to record the above transactions in the books of the partnership. **[2+2+3=7]**

- (ii)** Book value of old assets exchanged ₹16,000
 Additional cash given for exchange of asset ₹10,000
 Determine the cost of new asset acquired and show the accounting treatment in this regard in the following cases:

- If no other information is given
- Fair market value of old asset exchanged is ₹36,000
- Fair market value of new asset acquired in exchange of old asset is ₹50,000.

[1+2+2=5]

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4. (Answer any two)

- (a) The net total balances extracted from purchases ledger of Mr. M on March, 2013 amounted to ₹ 12,560 which did not agree with balance on the Purchase Ledger Control Account.

The audit revealed the following errors which were appropriately adjusted to make the books balances:

- A debit balance of ₹220 in the Purchase Ledger and been recorded as a credit balance.
- Mr. N had been debited for goods returned to him ₹495 but no other entry was made.
- The Purchase Day Book had been overcast by ₹550.
- Credit balance on the Purchase Ledger amounting to ₹2,640 and the debit balance amounting to ₹110 had been omitted from the list of the balances.

You are to prepare (i) a statement reconciling the original net balance extracted from the Purchase ledger with the corrected balance on the Purchase Ledger Control Account and (ii) the Purchase Ledger Control Account showing the balance just before the correction of the errors and the adjustments made thereon.

[3+3=6]

- (b) List any two features of Sectional Balancing System.

[2]

- (c) From the following particulars prepare the General Ledger Adjustment Account as it would appear in the Consignment Ledger of Delhi Enterprises:

Date	Particulars	Bombay ₹	Calcutta ₹	Kanpur ₹	Madras ₹	Lucknow ₹	Patna ₹
01.01.2014	Balance of Consignment Stock	60,000	60,000	50,000	70,000	20,000	20,000
31.12.2014	Goods Sent on Consignment	2,00,000	3,00,000	4,00,000	2,00,000	1,00,000	1,50,000
	Expenses	10,000	20,000	10,000	5,000	10,000	15,000
	Sales	4,00,000	5,00,000	6,00,000	3,00,000	2,00,000	2,50,000
	Stock on Consignment	---	---	10,000	15,000	20,000	20,000

Commission in each case is 10% on sales.

[4]

5. (Answer any two)

- (a) A consigned 300 units to B at a cost of ₹100 each.

Expenses were : (i) Paid by A – Freight ₹800 and Insurance ₹200.

(ii) Paid by B – Dock charges ₹200 and godown rent ₹100.

Commission payable to B – 10% on sales.

B sold 250 units @ ₹175 each and reported a deficiency of 10 units agreeing however to bear 50% of such deficiency. Show the journal entries in the books of A.

[5+1+2=8]

- (b) (i) D Purchased 500 equity shares of ₹100 each in the Mohan Ltd. for ₹62,500 inclusive of brokerage and stamp duty. Some years later the company decided to capitalize its profit and to issue to the holders of equity shares one equity share as Bonus for every equity share held by them. Prior to capitalization, the shares of Mohan Ltd. were quoted at ₹175 per share. After the capitalization, the shares were quoted at ₹92.50 per share. D sold the Bonus shares and received ₹90 per share. Show Investment Account in D's books on average cost basis as per AS 13.

[5]

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- (ii) Write a note on the following:
Proportionate Discount Charges

[3]

- (c) The premises of XY Ltd. were partially destroyed by fire on 1st March, 2014 and as a result, the business was practically disorganized upto 31st August, 2014. The company is insured under a loss of profits policy for ₹ 1,65,000 having an indemnity period of 6 months.

From the following information, prepare a claim under the policy:

Sl. No.	Particulars	Amount (₹)
(i)	Actual turnover during the period of dislocation (1.3.2014 to 31.8.2014)	80,000
(ii)	Turnover for the corresponding period (dislocation) in the 12 months immediately before the fire	2,40,000
(iii)	Turnover for the 12 months immediately preceding the year fire (1.3.2013 to 28.2.2014)	6,00,000
(iv)	Net Profit for the last financial year	90,000
(v)	Insured standing charges for the last financial year	60,000
(vi)	Uninsured standing charges	5,000
(vii)	Turnover for the last financial year	5,00,000

Due to substantial increase in trade, before and up to the time of fire, it was agreed that an adjustment of 10% should be made in respect of the upward trend in turnover. The company incurred additional expenses amounting to ₹ 9,300 immediately after the fire and but for this expenditure, the turnover during the period of dislocation would have been only ₹ 55,000. There was also a saving during the indemnity period of ₹ 2,700 in insured standing charge as a result of the fire.

[8]

6. (Answer any two)

- (a) VK Ltd. sold goods worth ₹50,000 to YK Ltd. YK Ltd. asked for discount of ₹8,000 which was agreed by VK Ltd. The sale was effected and goods were dispatched. After receiving, goods worth ₹ 7,000 was found defected, which they returned immediately. They made the payment of ₹ 35,000 to VK Ltd. Accountant booked the sales for ₹ 35,000. Please discuss.

[4]

- (b) Write a note on — MOU [The Minutes of Usage].

[4]

- (c) Calculate the contract revenue from the following details

Particulars	(₹ In Crores)		
	Years		
	I	II	III
1. Initial contract revenue	3000	3000	3000
2. Revenue increase due to escalation in II nd year	---	600	---
3. Claim			300
4. Incentive Payment			450
5. Penalties		150	

[4]

7. (Answer any two)

- (a) (i) Calculate depreciation as per 2009 regulations from the following information of Sell Power generation Project

Date of commercial operation/Work Completed Date	11-Jan-1999
Beginning of Current year	1 -Apr-2014
Useful life	35 years

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		(Figures in ₹ Crores)
1.	Capital Cost at beginning of the year 2012-13	222.000
2.	Additional Capitalization during the year: 2013-14	10.560
	2014-15	29.440
3.	Value of Freehold Land	12.000
4.	Depreciation recovered up to 2010-11	48.600
5.	Depreciation recovered in 2011-12	5.400

Note: Capital Cost and Accumulated Depreciation at the beginning of the year are as per tariff order FY 2012-13. **[4]**

(ii) Discuss the steps involved in ODRC Method (Optimised Depreciated Replacement Cost). **[4]**

(b) When closing the books of a bank on 31.12.2013 you find in the loan ledger an unsecured balance of ₹2,00,000 in the account of a merchant whose financial condition is reported to you as bad and doubtful. Interest on the same account amounted to ₹ 20,000 during the year.

How would you deal with this item of interest in 2013 account?

During the year 2014, the bank accepts 75 paise in the rupee on account of the total debt due up to 31.12.2013.

Show the entries and the necessary accounts showing the ultimate effect of the transactions in 2014 books of account under Interest Suspense Method. **[4+2+2=8]**

(c) From the following figures appearing in the books of Fire Insurance division of Vipul General Insurance Company, show the amount of claim as it would appear in the Revenue Account for the year ended 31st March, 2014:

Particulars	Direct Business ₹	Re-Insurance ₹
Claim paid during the year	70,05,000	10,50,000
Claim Payable — 1st April, 2013	11,44,500	1,30,500
31st March, 2014	12,18,000	79,500
Claims received	-	3,44,000
Claims Receivable — 1st April, 2013	-	98,000
31st March, 2014	-	1,69,500
Expenses of Management (includes ₹ 52,500 Surveyor's fee and ₹ 67,500 Legal expenses for settlement of claims)	3,45,000	-

[2+6=8]