

PAPER 5- FINANCIAL ACCOUNTING

PTP_Intermediate_Syllabus 2012_Jun2015_Set 2

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]

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

- A sale of ₹5,000 to P.K.Sen was passed through the Purchase Day Book.
- Salary paid to Mr. X ₹5,000, wrongly debited to his personal account.

(b) A and B are partners having Capitals of ₹ 4,80,000 and ₹ 1,20,000 respectively and a profit sharing ratio of 4 : 1. C is admitted for 1/5th share in the profits of the firm and he pays ₹ 1,80,000 as Capital. Find out the value of the Goodwill.

(c) Following Memorandum Royalty Statement are given with missing figures.

Year	Royalty	Min. Rent	Short working	Reco upment	Short working carried forward	Trf to P&L A/c	Payment to landlord
2011	-	54,000	?	-	?	-	54,000
2012	17,820	54,000	?	-	90,180	-	54,000
2013	59,940	54,000	-	5,940	84,240	-	?

Complete this above statement considering that excess of Minimum Rent over royalties as recoverable out of royalties of next three years.

(d) A Company sold 25% of the goods on Cash Basis and the balance on Credit Basis. Debtors are allowed 2 months credit and their balance as on 31st March (Closing Balance) is ₹ 2,59,000. Assume that the Sale is uniform throughout the year. Calculate the Total Sales of the Company for the year ended 31st March.

(e) Harmony Traders keep their Ledger on self-balancing system, and provide the following data for the period just ended.

Particulars	₹	Particulars	₹
Opening Balance of Debtors	3,91,162	Cash Received from customers	2,18,880
Credit Sales	2,04,345	Discount Received	5,729
Returns Inward	3,420	Returns Outward	5,130

Prepare General Ledger Adjustment Account in the Sales Ledger of Harmony Traders.

(f) From the following data, show degree of completion as would appear in the books of a contractor following Accounting Standard – 7:

Particulars	(₹ in lakhs)
Contract Price	6,624
Cost incurred to date	4,140
Estimated cost to complete	2,760

(g) On 12th June, 2014, a fire occurred in the premises of N.R. Patel, a paper merchant. Most of the stocks were destroyed, cost of stock salvaged being ₹87,920. In addition, some stock was salvaged in a damaged condition and its value in that condition was agreed at ₹ 81,640. The Estimated Value of stock at the date of fire was ₹ 6,28,000. On

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the basis of his accounts, it appears that he earns on an average a gross profit of 25% on sales. Patel has insured his stock for ₹ 4,71,000. Compute the amount of claim.

- (h) A & Co. records through its Sales Day Book goods sent for approval to a few customers. On 31 March, 2015 when it closed its accounts its Debtors and Stock in hand were ₹ 2,62,500 and ₹ 1,31,250 respectively. The Debtors included ₹ 10,500 due from B and ₹ 3,500 from C for goods sent for approval to them at a profit of $33\frac{1}{3}\%$ on cost. But no intimation was received from them till 31.3.2015. Show how these items will appear in the Balance Sheet on 31 March, 2015.

- (i) As on 31.12.14, the books of the Hero Bank include, among others, the following balances-

Particulars	₹
Rebate on Bills discounted (01.01.2014)	9,15,200
Discount Received	1,57,73,472
Bills Discounted and Purchased	9,02,24,420

Throughout 2014, the Bank's Rate for Discounting has been 18%. On investigation and analysis, the Average due date for the Bills discounted and purchased is calculated on 15.02.2015 and that for Bills for collection as 15.01.2015.

Compute the Rebate pertaining to the period after Balance Sheet Date.

- (j) Mention any two activities requiring Licence under the Electricity Act, 2003.

2. (Answer any two)

[2x4]

- (a) Raja makes up his annual accounts to 31st December every year. He was unable to take stock of physical inventory till 9th January 2015 on which date the physical stock at cost was valued at ₹ 56,400.

You are required to ascertain the value of stock at cost on 31st Dec. 2014, from the following information regarding the period from 1st January 2015 to 9th January 2015:

- Purchases of goods amounted to ₹ 19,200 of which goods worth ₹ 3,525 had been received on 28.12.2014 and goods worth ₹ 4,425 had been received on 12.1.2015.
- Sales of goods amounted to ₹ 28,800 of which goods of a sale value of ₹ 2,700 had not been delivered at the time of verification and goods of a sale value of ₹ 4,500 had been delivered on 29.12.2014.
- A sub-total of ₹ 9,000 on one of the stock sheets had been carried to the summary of stock sheet as ₹ 15,750.
- In respect of goods costing ₹ 3,000 received prior to 31st December 2014, invoices had not been received up to the date of verification of stock.
- The rate of gross profit was 20% on the cost price. [4]

- (b) ABC Ltd. Issue 1,00,000 equity shares of ₹ 10 each (fully paid up) in consideration for supply of a Machinery by MNP Ltd. The shares exchanged for machinery are quoted on National Stock Exchange (NSE) at ₹25 per share, at the time of transaction. In the absence of fair market value of the machinery acquired, how the value of machinery would be recorded in the books of company [4]

- (c) Distinguish between Capital Expenditure and Revenue Expenditure.

[4]

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3. (Answer any two)

[2x12]

- (a) (i) Water Industries Ltd. gives the following estimates of cash flows relating to fixed asset on 31-12-2012. The discount rate is 12%.

Year	Cash flow(₹ in Lakhs)
2013	2,000
2014	3,000
2015	3,000
2016	4,000
2017	2,000
Residual value at the end of 2017	500

Fixed Asset purchased on 01-01-2010 for ₹20,000 lakhs
 Useful life 8 years
 Residual value estimated ₹ 500 lakhs at the end of 8 years. Net selling price ₹ 10,000 lakhs.

Calculate on 31-12-2012.

- A. Value in use on 31-12-2012.
 B. Carrying Amount at the end of 31-12-2012
 C. Recoverable amount on 31-12-2012.
 D. Impairment loss to be recognized for the year ended 31-12-2012.
 E. Revised carrying amount.
 F. Depreciation charge for 2013. [2+2+1+1+1+1]

- (ii) Distinguish between Profit and Loss Account and Profit & Loss Appropriation Account. [4]

- (b)(i) From the following, you are required to calculate the Net Cash Flow from the Operating Activities by Indirect Method:

Particulars	31 March 2014 ₹	31 March 2015 ₹
Balance of Profit & Loss A/c	1,89,000	2,04,750
Debtors	2,74,050	1,26,000
Bills Receivable	1,95,300	3,24,450
General Reserve	6,36,300	7,46,550
Salary Outstanding	94,500	37,800
Wages Prepaid	15,750	22,050
Goodwill	2,52,000	2,20,500

[6]

- (ii) X Ltd has three departments A, B and C. From the particulars given below, compute The Departmental results

Particulars	A(₹)	B(₹)	C(₹)
Opening Stock	24,000	36,000	12,000
Purchases	1,46,000	1,24,000	48,000
Actual Sales	1,72,500	1,59,400	74,600
Gross Profit on Normal selling price	20%	25%	33 $\frac{1}{3}$ %

During the year certain items were sold at discount and these discounts were reflected in the value of sales shown above. The items sold at discount were:

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Particulars	A(₹)	B(₹)	C(₹)
Sales at Normal Price	10,000	3,000	1,000
Purchases	7,500	2,400	600

[4]

(iii) Mention any two features of Accounting for Independent Branches. [2]

(c) Sachin and Tuhin were carrying on business as equal partners. Their Balance Sheet as on 31st March 2014 stood as follows:

Capital and Liabilities	₹	Properties and Assets	₹
Capital Account:		Stock	2,70,000
- Sachin 6,40,000		Debtors	3,65,000
- Tuhin <u>6,60,000</u>	13,00,000	Furniture	75,000
Creditors	3,27,500	Joint Life Policy	47,500
Bank Overdraft	1,50,000	Plant	1,72,500
Bills Payable	62,500	Building	9,10,000
Total	18,40,000	Total	18,40,000

The operations of the business was carried on till 30th September 2014. Sachin and Tuhin both withdrew in equal amounts, half the amount of profits made during the current period of 6 months after 10% p.a. had been written off on Building and Plant and 5% p.a. written off on Furniture. During the current period of 6 months, Creditors were reduced by ₹50,000, Bills Payables by ₹11,500 and Bank Overdraft by ₹75,000. The Joint Life Policy was surrendered for ₹47,500 on 30th September 2014. Stock was valued at ₹3,17,000 and Debtors at ₹3,25,000. The other items remained the same as they were on 31st March 2014.

On 30th September 2014, the Firm sold its business to Swastik Ltd. Goodwill was estimated at ₹5,40,000 and the remaining Assets were valued on the basis of the Balance Sheet as on 30th September 2014. Swastik Ltd. paid the Purchase Consideration in Equity Shares of ₹10 each. You are required to prepare a Realisation Account and Capital Accounts of the Partners. [12]

4 (Answer any two) [4x2]

(a) A firm keeps its sold and bought ledgers on self-balancing system. From the following particulars, prepare the adjustment accounts in the sold and bought ledgers.

Trade Debtors on 1st April, 2013—₹62,000; Trade Creditors on 1st April, 2013—₹25,000; Credit Purchases— ₹1,03,000; Credit Sales—₹1,34,000; Cash received from trade debtors—₹78,000; Returns Inward—₹3,000; Acceptances given—₹40,000; Returns Outward—₹2,500; Acceptances from trade debtors dishonoured—₹5,000; Discount allowed to trade debtors—₹1,000; Bad Debts written off—₹2,000; Bad Debts written off in the previous years now recovered—₹5,000; Trade Creditors on 31st March, 2014 — ₹10,500; Trade Debtors on 31st March, 2014—₹1,17,000. [4]

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

(c) Prepare the General Ledger Adjustment Accounts as will appear in Debtors Ledger from the information given below:

Particulars	Dr. (₹)	Cr. (₹)
Debtors' Ledger	47,200	240

Transactions for the year ended 31.3.2015:

Total Sales	1,20,100
Cash Sales	8,100

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Received from Debtors (in full settlement of ₹59,000)	58,200
Bills Accepted by customers	20,100
Bills Receivable Dishonoured	1,500
Bills Receivable endorsed to creditors	4,000
Endorsed bills Dishonoured	1,000
Bad Debts	2,200
Provision for Doubtful debts	550
Transfer from Creditors Ledger to Debtors Ledger	1,900

Balance on 31.03.2015

Debtors' Ledger (Cr.)	₹380
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[4]

5 (Answer any two)

[4x2]

- (a) Excellent Construction Company Limited undertook a contract to construct a building for ₹26.01 crores on 1st September, 2013. On 31st March 2014, the company found that it had already spent ₹ 15.61 crores on the construction. Prudent estimates of additional cost of completion was ₹ 12.14 crores. Calculate what amount should be charged, to revenue in the final accounts for the year ended on 31st March 2014, as per the provisions of AS -7? [4]

- (b) Write a note on Segment Reporting in the perspective of Telecommunication Sector. [4]

- (c) On 25th September, 2014, Shanthy Limited obtained advertisement rights to World Cup Hockey Tournament to be held in Dec, 2014 for ₹520 lakhs.

They furnish the following information:

- The company obtained the advertisements for 70% of available time for ₹700 lakhs by 30th September, 2014.
- For the balance time they got bookings in October, 2014 for ₹ 240 lakhs.
- All the advertisers paid the full amount at the time of booking the advertisements.
- 40% of the advertisements appeared before the public in Nov. 2014 and balance 60% appeared in the month of December, 2014.

You are required to calculate the amount of profit/loss to be recognized for the month November and December, 2014 as per Accounting Standard-9. [4]

6 (Answer any two)

[8 x 2]

- (a) A fire occurred in the premise of ME X-Ray & Co. on 15.5.14 causing destruction of large part of the stock. The firm had taken a fire insurance policy for ₹ 38,57,760 to cover the loss of stock by fire. From the records saved the following particulars were ascertained:

	₹		₹
Purchases for the year 2013	2,11,61,280	Stock on 31 st December 2013	54,59,520
Sales for the year 2013	2,61,69,600	Wages paid during 2013	22,56,000
Purchases from 1 st January 2014 to 15 th May 2014	41,05,920	Wages paid during 1 st January 2014 to 15 th May 2014	4,06,080
Sales from 1 st January 2014 to 15 th May 2014	54,14,400	Stock Salvaged was	6,31,680
Stocks on 1 st January 2013	32,48,640		

In 2013 some goods were destroyed by fire. The cost of such goods was ₹ 11,28,000. These goods were not covered by any insurance policy. In valuing the stock on 31st December 2014 stocks costing ₹ 2,39,700 were found to be poor selling line and ₹ 42,300

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in relation to such stock were written off. A portion of these goods (original cost ₹ 35,250) were sold in April 2014 at a loss of ₹ 7,050 on original cost. The remainder of this stock was now estimated to be worth the original cost. Subject to the above exception, gross profit has remained at a uniform rate throughout. You are required to ascertain the insurance claim available to the firm. [8]

(b) (i) Explain the preparation of Account Current by the Method of Products. [4]

(ii) On 01.04.20X1, Dhakshinamurthi purchased 1,000 Equity Shares of ₹ 100 each in Lakshmi Ltd at ₹ 120 each from a Broker, who charged 2% Brokerage. He incurred 50 paise per ₹ 100 as cost of Share Transfer Stamps. On 31.01.20X2, Bonus was declared in the ratio of 1:2. Before and after the record date of Bonus Shares, the Shares were quoted at ₹ 175 per Share and ₹ 90 per Share respectively. On 31.03.20X2, Dhakshinamurthi sold Bonus Shares to a Broker, who charged 2% Brokerage.

Show the Investment Account in the books of Dhakshinamurthi, who held the shares as Current Assets. Closing Value of Investments shall be made at Cost or Market value whichever is less. [4]

(c) Lubrizols Ltd. of Mumbai consigned 1,000 barrels of lubricant oil costing ₹ 800 per barrel to Central Oil Co. of Kolkata on 1.1.2014. Lubrizols Ltd. paid ₹ 50,000 as freight and insurance. 25 barrels were destroyed on 7.1.2014 in-transit. The insurance claim was settled at ₹ 15,000 and was paid directly to the consignor.

Central Oil took delivery of the consignment on 19.1.2014 and accepted a bill drawn upon them by Lubrizols Ltd., for ₹ 5,00,000 for 3 months. On 31.3.2014, Central Oil reported as follows:-

(i) 750 barrels were sold as ₹ 1,200 per barrel.

(ii) The other expenses were:

	₹
Clearing charges	11,250
Godown Rent	10,000
Wages	30,000
Printing, Stationery, Advertisement	20,000

(iii) 25 barrels of oil were lost due to leakage which is considered to be normal loss.

Central Oil Co. is entitled to a commission of 5% on all the sales effected by them. Central Oil Company paid the amount due in respect of the consignment on 31st March itself.

Show the Consignment Account, the account of Central Oil Co., and the Lost-in-Transit Account as they will appear in the books of Lubrizols Ltd. [8]

7 (Answer any two) [8x 2]

(a) From the following information Calculate Depreciation and Advance against Depreciation as per Regulation 21 of the Central Electricity Regulatory Commission (Terms and Conditions of Tariff) Regulations, 2004.

- Date of Commercial Operation of COD = 1st April 2010
- Approved opening Capital cost as on 1st April 2010 = 1,50,000
- Weighted Average Rate of Depreciation: 3.5%
- 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	1,000

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Repayment of Loan	8,000	10,000	10,000	11,000
Weighted Average Rate of Interest on Loan	7.4	7.5	7.6	7.5

[8]

(b) (i) Write a note on Reserve Funds (Statutory Reserve) in the context of Banking Companies [Under Section 17]. [3]

(ii) Explain about the Maintenance of Cash Reserve Under Section 18. [5]

(c) The Revenue Account of a Life Insurance Company showed the Life Fund at ₹ 58,53,600 on 31st March before taking into consideration the following items. Pass the Journal Entries for the following and compute the Corrected Balance of Life Fund.

Particulars	₹
Claims Intimated but not Admitted	78,600
Bonus Utilized in Reduction of Premium	10,800
Interest Accrued on Investments	23,800
Outstanding Premiums	21,600
Claims covered under Re-Insurance	32,400
Provision for Taxation	25,200

[8]