

# Paper 5- Financial Accounting

## PTP\_Intermediate\_Syllabus 2012\_June2016\_Set 1

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

	<b>Learning objectives</b>	<b>Verbs used</b>	<b>Definition</b>
<b>LEVEL B</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 ×10=20]

(i) Best Ltd. deals in five products, P, Q, R, S and T which are neither similar nor interchangeable. At the time of closing of its accounts for the year ending 31<sup>st</sup> March 2011, the historical cost and net realizable value of the items of the closing stock are determined as follows:

Items	Historical Cost (₹)	Net realizable Value (₹)
P	5,70,000	4,75,000
Q	9,80,000	10,32,000
R	3,16,000	2,89,000
S	4,25,000	4,25,000
T	1,60,000	2,15,000

What will be the value of closing stock for the year ending 31<sup>st</sup> March, 2011 as per AS-2 "Valuation of Inventories"?

(ii) Maharudra Research Services (MRS) has received two lakh subscriptions during the current year under its new scheme whereby customers are required to pay a sum of ₹ 3,000 for which they will be entitled to receive 'Jeevadhar' (a magazine) for a period of 3 years. MRS wants to treat the entire amount as revenue for the current year. Comment.

(iii) A, B and C are partners sharing Profits and Losses in the ratio of 3:2:1. B retired from the firm. Partners A and C decided to take his share in 3 : 1 ratio. What is the new ratio of the partners A and C?

(iv) The closing capital of Mr. A on 31.03.2007 was ₹ 1,50,000. On 01.04.2006 his capital was ₹ 60,000. During the year he had, drawn ₹ 40,000 for domestic expenses. He introduced ₹ 25,000 as additional Capital in February, 2007. Find out his Net Profit for the year.

(v) From the following, calculate the cash price of the asset:

Particulars	Amount (₹)
Hire purchase price of the asset	50,000
Down payment	10,000
Four annual installments at the end of each year	10,000
Rate of Interest	5% p.a.

(vi) Sectional balancing ledger system makes the ledgers to balance independently.

(vii) Write a short note on Account Current.

(viii) Mr. T purchased 1,000 nos. 10% debentures of ₹ 100 each on 1<sup>st</sup> April, 2009 at ₹ 96 cum-interest, the previous interest date being 31<sup>st</sup> December, 2008. Compute cost of investment.

(ix) Given below are details of interest on advance of a Commercial Bank as on 31.03.2015:

Particulars	Interest Earned (₹ in Lakhs)	Interest Received (₹ in Lakhs)

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<b>Performing Assets</b>		
Term Loan	720	480
Cash Credit and Overdraft	4,500	3,720
Bills Purchased and Discounted	900	900
<b>Non-Performing Assets</b>		
Term Loan	450	30
Cash Credit and Overdraft	900	72
Bills Purchased and Discounted	600	120

Find out the income to be recognized for the year ended 31<sup>st</sup> March 2015.

- (x) List the advantages of applying Optimised Depreciated Replacement Cost [ODRC] Method.

2. (Answer any two)

- (a) Mr. B sold goods on credit to various customers. Details related to one of the customer, Mr. Z, is as under:
- (i) Goods sold on credit ₹ 5,00,000.
  - (ii) Goods returned by the customer ₹ 30,000 due to defective quality, credit note raised but not recorded.
  - (iii) Payment received from customer in cash ₹ 1,00,000 and by cheques ₹ 2,30,000. Out of cheques received, a cheque of ₹ 38,000 was dishonoured by bank.
  - (iv) Customer accepted two bills of ₹ 19,000 and ₹ 53,000 for 2 months and 3 months respectively.
  - (v) Credit note raised against the customer ₹ 3,400 for excess payment charged against one of the consignment.

Mr. Z, the customer is in need to ascertain the actual balance due to Mr. B. Prepare a Reconciliation Statement. [4]

- (b) State with reasons whether the following are capital or revenue expenditure:
- (i) Freight and cartage on the new machine ₹ 150, and erection charges ₹ 500.
  - (ii) Fixtures of the book value of ₹ 2,500 sold off at ₹ 1,600 and new fixtures of the value of ₹ 4,000 were acquired. Cartage on purchase ₹ 100.
  - (iii) A sum of ₹ 400 was spent on painting the factory.
  - (iv) ₹ 8,200 spent on repairs before using a second hand car purchased recently, to put it in usable condition. [4]

- (c) The following errors were detected in the books of a sole trader after he prepared his Trial Balance, agreed with the help of a Suspense Account. Rectify the errors and prepare the suspense Account:
- (i) A cheque of ₹ 750 received for loss of stock by fire has been deposited in the proprietor's private bank account.
  - (ii) An item of purchase of ₹ 151 was entered in the purchase Book as ₹ 15 and posted in the Supplier's Account as ₹ 51.
  - (iii) A Sales return of ₹ 500 was not entered in the financial accounts though it was duly taken into stock.
  - (iv) An amount of ₹ 300 was received in full settlement from a customer after he was allowed a discount of ₹ 50; but while writing the books, the amount received was entered in the discount column and the discount allowed was entered in the amount column. [4]

3. (Answer any Two)

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- (a) (i) A and B were carrying on the business as equal partners. It was agreed that A should retire from the firm on 31<sup>st</sup> March, 2013 and that his son H should join B from 1<sup>st</sup> April 2013 and should be entitled to one-third of the profits of the partnership.

The balances in the firm's books on 31<sup>st</sup> March, 2013 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 31<sup>st</sup> March, 2013, 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 7.4.2013 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]

- (a) (ii) A company purchased a machine on 01.01.1998 at a cost of ₹ 5,20,000. Its residual value and working life were estimated as ₹ 20,000 and 10 years. Depreciation had been charged accordingly till 31.12.2002. At the beginning of 2003, the technical experts of the company recommend that the asset may be used for another 10 years. What should be the amount of annual depreciation from 2003? [5]

- (b) The following is the balance sheet of CANJA on 31<sup>st</sup> March, 2012:

Liabilities	₹	Assets	₹
Capital	10,00,000	Fixed Assets	4,00,000
Creditors (Trade)	1,40,000	Stock	3,00,000
Profit & Loss A/c	60,000	Debtors	1,50,000
		Cash & Bank	3,50,000
	12,00,000		12,00,000

The management estimates the purchases and sales for the year ended 31<sup>st</sup> March, 2013 as under.

Particulars	Upto 28.02.2013	31.03.2013
Purchases	₹ 14,10,000	1,10,000
Sales	19,20,000	2,00,000

It was decided to invest ₹ 1,00,000 in purchases of fixed assets, which are depreciated @ 10% on cost.

The time lag for payment to Trade Creditors for purchase and receipt from Sales is one month. The business earns a gross profit of 30% on turnover. The expenses against gross profit amount to 10% of the turnover. The amount of depreciation is not included in these expenses.

Required: Draft a balance sheet as at 31<sup>st</sup> March, 2013 assuming that creditors are all Trade Creditors for purchases and debtors for sales and there is no other item of current assets and liabilities apart from stock and cash and bank balances. [12]

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- (c) Mega Ltd. has two departments, A and B. From the following particulars, prepare departmental Trading A/c and General Profit & Loss Account for the year ended 31<sup>st</sup> March, 2014.

Particulars	Amount (₹)	Amount (₹)
	Department A	Department B
Opening Stock as on 01.04.2013 (at cost)	70,000	54,000
Purchases	3,92,000	2,98,000
Carriage Inward	6,000	9,000
Wages	54,000	36,000
Sales	5,72,000	4,60,000
<b>Purchased Goods Transferred:</b>		
By Department B to A	50,000	
By Department A to B		36,000
<b>Finished Goods Transferred:</b>		
By Department B to A	1,50,000	
By Department A to B		1,75,000
<b>Return of Finished Goods:</b>		
By Department B to A	45,000	
By Department A to B		32,000
<b>Closing Stock:</b>		
Purchased Goods	24,000	30,000
Finished Goods	1,02,000	62,000

Purchased goods have been transferred mutually at their respective departmental purchase cost and finished goods at departmental market price and that 30% of the closing finished stock with each department represents finished goods received from the other department. [12]

#### 4. (Answer any Two)

- (a) A business concern maintains self-balancing ledgers. On the basis of following information, prepare General Ledger Adjustment Account in Debtors Ledger for the month of April, 2012:

Particulars	Amount (₹)
Debit balances in Debtors Ledger on 01.04.2012	3,58,200
Credit balances in Debtors Ledger on 01.04.2012	9,400
<b>Transactions during the month of April, 2012 are:</b>	
Total Sales (including Cash Sales, ₹ 1,00,000)	20,95,400
Sales Returns	33,100
Cash received from credit customers	17,25,700
Bills Receivable received from customers	95,000
Bills Receivable dishonoured	7,500
Cash paid to customers of returns	6,000
Transfers to Creditors Ledger	16,000
Credit balances in Debtors Ledger on 30.04.2012	9,800

[4]

- (b) M/s. Big Systematic Ltd. maintains self-balancing ledgers preparing control accounts at the end of each calendar month.

On 3<sup>rd</sup> January, 2013 the accountant of the company located the following errors in the books of account:

- (i) An amount of ₹ 8,700 received from customer Mehra was credited to Mehta, Another customer.
- (ii) The sales book for December, 2012 was under cast by ₹ 1,000.
- (iii) Goods invoiced at ₹ 15,600 were returned to supplier, M/s. Mega Ltd., but no entry was made in the books for this return made on 28<sup>th</sup> December, 2012.

Pass the necessary Journal Entries to rectify the above mentioned errors.

[4]

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- (c) On 1<sup>st</sup> October, 2010, the debit balances of debtors account is ₹ 77,500 in the books of M/s Zee Limited. Transactions during the 6 months ended on 31<sup>st</sup> March, 2011 were as follows:

Particulars	Amount (₹)
Total sales (including cash sales ₹ 14,000)	84,000
Payment received from debtors in cash	38,000
Bills receivable received	26,000
Discount allowed to customers for prompt payment	1,000
Goods rejected and returned back by the customer	2,550
Bad debts recovered (written off in 2009)	900
Interest debited for delay in payment	1,250

Out of the bills received, bills of ₹ 8,500 were dishonoured on due dates and noting charges paid ₹ 250. Bills of ₹ 5,000 were endorsed to the suppliers.

You are required to prepare a Debtors Account for the period ending 31<sup>st</sup> March, 2011 in the General Ledger of M/s. Zee Ltd. [4]

### 5. (Answer any Two)

- (a) An amount of ₹9,90,000 was incurred on a contract work upto 31-3-2010. Certificates have been received to date to the value of ₹12,00,000 against which ₹10,80,000 has been received in cash. The cost of work done but not certified amounted to ₹22,500. It is estimated that by spending an additional amount of ₹60,000 (including provision for contingencies) the work can be completed in all respects in another two months. The agreed contract price of work is ₹12,50,000. Compute a conservative estimate of the profit to be taken to the Profit and Loss Account as per AS-7. [4]
- (b) A Ltd. entered into a contract with B Ltd. to dispatch goods valuing ₹ 25,000 every month for 4 months upon receipt of entire payment. B Ltd. accordingly made the payment of ₹ 1,00,000 and A Ltd. started dispatching the goods. In third month, due to a natural calamity, B Ltd. requested A Ltd. not to dispatch goods until further notice though A Ltd. is holding the remaining goods worth ₹ 50,000 ready for dispatch. A Ltd. accounted ₹ 50,000 as sales and transferred the balance to Advance Received against Sales. comment upon the treatment of balance amount with reference to the provisions of Accounting Standard 9. [4]
- (c) State the scope of AS-5 (Net profit or loss for the prior, prior period items and changes in accounting policies). [4]

### 6. (Answer any Two)

- (a) On 1<sup>st</sup> April, 2008, Mr. Neel purchased 5,000 equity shares of ₹ 100 each in X Ltd. @ ₹ 120 each from a Broker, who charged 2% brokerage. He incurred ½% as cost of shares transfer stamps. On 31<sup>st</sup> January, 2009, 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<sup>st</sup> March, 2009, Mr. Neel sold bonus shares to a broker, who charged 2% brokerage. Show the Investment Account in the books of Mr. Neel, who held the shares as current assets and closing value of investments shall be made at cost or market value, whichever is lower. [8]
- (b) B of Bombay consigned 400 packages of coffee to K of Kanpur. The cost of each package was ₹ 300. A sum of ₹ 2,000 was paid towards freight and insurance by B. In the

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transit 60 packages were damaged. However, the consignor received ₹ 400 for the damaged packages from the Insurance Company.

The consignee accepted a Bill of Exchange for 60,000 for 60 days as an advance to B of Bombay. The operating statement from the consignee disclosed the following information:

- (a) 280 packages were sold @ ₹ 360 per package;
- (b) The damaged packages were sold @ ₹ 100 per package;
- (c) They also paid ₹ 1,400 towards godown rent, ₹ 1,000 for carriage outward and ₹ 3,400 towards clearing charges.

The consignee is entitled to a commission of 10% on the sale proceeds. At the end of the consignment period, K of Kanpur sent a Bank draft to B of Bombay. You are required to prepare the necessary accounts in the books of consignor B of Bombay. [8]

- (c) (i) Disha Gadgets Ltd. sends electric ovens costing ₹ 1,200 each to their customers on Sale or Return basis. These are treated like actual sales and recorded through the Sales Day Book. Two months before the end of financial year it sent 150 ovens at an Invoice Price of ₹ 1,500 each, of which 20 ovens are accepted by customers at ₹ 1,400 each. Regarding the rest of the goods sent no further report is available. You are required to give the necessary Journal Entries at the end of the accounting year. [4]

- (c) (ii) A trader intends to take a loss of profit policy with indemnity period of 6 months, however, he could not decide the policy amount. From the following details, suggest the policy amount:

	₹
Turnover in last financial year	4,50,000
Standing charges in last financial year	90,000

Net profit earned in last year was 10% of turnover and the same trend expected in subsequent year.

Increase in turnover expected 25%

To achieve additional sales, trader has to incur additional expenditure of ₹ 31,250.

[4]

### 7. (Answer any Two)

- (a) The following is an extract from the Trial Balance of Dream Bank Ltd. as at 31<sup>st</sup> March, 2012:

Rebate on bills discounted as on 01.04.2011	68,259 (Cr.)
Discount received	1,70,156 (Cr.)

An analysis of the bills discounted reveals as follows:

Amount (₹)	Due Date
2,80,000	June 1, 2012
8,72,000	June 8, 2012
5,64,000	June 21, 2012
8,12,000	July 1, 2012
6,00,000	July 5, 2012

You are required to find out the amount of discount to be credited to Profit and loss account for the year ending 31<sup>st</sup> March, 2012 and pass Journal Entries. The rate of discount may be taken at 10% per annum. [8]

- (b) Following information has been provided in respect of Watson Power Generation Project:



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- (1) Date of commercial operation / work completed date: 1<sup>st</sup> April, 1995  
 (2) Capital Cost at the beginning of the year 2010-11: ₹ 135.39 Crore  
 (3) Useful Life: 35 years  
 (4) Details of allowed capital expenditure, details of actual repayment of loan and weighted average rate of interest on loan is as follows:

	2010-11 (₹ in Crore)	2011-12 (₹ in Crore)	2012-13 (₹ in Crore)
Additional Capital Expenditure (allowed above)	1.63	0.98	0.52
Repayment of Loan during the year (net)	0.96	0.87	0.68
Weighted Average Rate of Interest on Loan	7.35%	7.48%	7.50%
Value of Land	0.00	0.00	0.00

- (5) Depreciation recovered upto 2008-09 = ₹ 49.05 Crore  
 (6) Depreciation recovered in 2009-10 = ₹ 3.26 Crore  
 (7) Cumulative Repayment of Loan upto 2009-10 = ₹ 14.00 Crore

From the above information, calculate the following as per the Central Electricity Commission (Terms and Conditions of Tariff) Regulations, 2009:

- (a) Average Capital Cost  
 (b) Return on Equity

[8]

- (c) (i) Domestic Assurance Co. Ltd. received ₹ 5,90,000 as premium on new policies and ₹ 1,20,000 as renewal premium. The company received ₹ 90,000 towards reinsurance accepted and paid ₹ 70,000 towards reinsurance ceded. How much will be credited to Revenue Account towards premium? [2]

- (c) (ii) X Fire Insurance Co. Ltd. commenced its business on 01.04.2012. It submits you the following information for the year ended 31.03.2013:

	₹
Premiums received	15,00,000
Re-insurance premiums paid	1,00,000
Claims paid	7,00,000
Expenses of Management	3,00,000
Commission paid	50,000
Claims outstanding on 31.03.2013	1,00,000

Create reserve for unexpired risk @ 40%

Prepare Revenue Account for the year ended 31.03.2013.

[6]