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 ×10=20]

(i) Best Ltd. deals in five products, P, Q, R, S and T which are neither similar not interchangeable. At the time of closing of its accounts for the year ending 31st 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 31st March, 2011 as per AS-2 "Valuation of Inventories"?

Answer:

According to AS 2 "Valuation of Inventories, inventories should be valued at the lower of cost and net realizable value. Inventories should be written down to net realizable value on an item-by-item basis.

Valuation of inventory (item wise) for the year ending 31st March 2011

Item	Historical Cost (₹)	Net realizable Value (₹)	Valuation of Closing Stock (₹)
P	5,70,000	4,75,000	4,75,000
Q	9,80,000	10,32,000	9,80,000
R	3,16,000	2,89,000	2,89,000
S	4,25,000	4,25,000	4,25,000
T	1,60,000	2,15,000	1,60,000
			23,29,000

The value of inventory for the year ending 31st March 2011 = ₹ 23,29,000.

(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.

Answer:

(a) **Basis:** Revenue should be based on the sales value of the item delivered in relation to the total sales value of all items covered by the subscription.

(b) **Recognition:** Revenue received or billed should be deferred and recognized, - (a) either on a straight line basis over time or, (b) where the items delivered vary in value from period to period.

(c) **Conclusion:** The accounting treatment adopted by MRS is not in accordance with AS–9. The revenue should be recognized on a straight – line basis, in the above case.

(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?

Answer:

Old P&L Ratio = 3 : 2 : 1

A's share (new) $= \frac{3}{6}+\left(\frac{3}{4}\times\frac{2}{6}\right)= \frac{9}{12}$

C's Share (new) $= \frac{1}{6}+\left(\frac{1}{4}\times\frac{2}{6}\right)= \frac{3}{12}$

Ratio A : C $= \frac{9}{12}:\frac{3}{12} = 3:1$

(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.

Answer:

Computation of Profit for the year ended 31.03.2007

Particulars	Amount (₹)
Closing Capital	1,50,000
Less: Capital Contributed	25,000
	1,25,000
Add: Drawing	40,000
	1,65,000
Less: Opening Capital	60,000
Profit for the year	1,05,000

(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.**

Answer:

Computation of cash price of the asset

Number of Installments	Closing Balance	Amount of installment	Total	Interest 5/105	Opening balance
4	0	10,000	10,000	476	9,524
3	9,524	10,000	19,524	930	18,594
2	18,594	10,000	28,594	1,362	27,232
1	27,232	10,000	37,232	1,773	35,459

Cash price of the asset = Down payment + ₹ 35,459
= ₹ 10,000 + ₹ 35,459 = ₹ 45,459.

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

Answer:

False: Under self balancing ledger system two extra accounts are prepared:

(i) Total Debtor Ledger Account and (ii) Total Creditor Account are included in general ledger for completing double entry in the general ledger itself. The supplier's and customer's individual accounts are, however maintained in the respective ledgers. Under this system, only the general ledger is made self, balancing not all the ledgers.

(vii) Write a short note on Account Current.

Answer:

Account Current is a statement in the debit and credit form i.e., in the ledger form recording the transactions between the two parties in a chronological order or time sequence order. It is the copy of the accounts appearing in the books of sender with an additional column for interest. It is sent by one party to another usually by the agent to his principal or by the banker to his client.

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

Answer:

Particulars	Amount (₹)
Total amount payable 1,000 × 96 =	96,000
Less: Interest included in the price for January, February and March i.e., $1{,}00{,}000 \times \frac{10}{100} \times \frac{3}{12}$	2,500
Cost of the Investment	93,500

(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)
Performing Assets		
Term Loan	**720**	**480**
Cash Credit and Overdraft	**4,500**	**3,720**
Bills Purchased and Discounted	**900**	**900**
Non-Performing Assets		
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 31st March 2015.

Answer:

As per RBI Circular, interests on non-performing assets are considered on Cash Basis whereas interests on performing assets are considered on Accrual Basis.

Statement Showing the Recognition of Income

Particulars	Amount (₹)	Amount (₹)
A. Interest on Term Loans		
(i) Performing Assets	720	
(ii) Non-performing Assets	30	750
B. Interest on Cash Credit and Overdraft		
(i) Performing Assets	4,500	
(ii) Non-performing Assets	72	4,572
C. Interest on Bills Purchased and Discounted		
(i) Performing Assets	900	

(ii) Non-performing Assets	120	1,020
Income to be Recognised		6,342

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

Answer:

- It will ensure that the price shocks are gradually administered to the customers.
- It will ensure greater acceptability to users since over capacity issues will be addressed and cost reductions possible from new technologies will be incorporated in the valuation.
- The valuation will reflect the cost of replacement utilities will be able to assess the timing and financing requirements with a greater degree of certainty.

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]

Answer:

Receivable from Mr. Z

Reconciliation Statement

Particulars	Amount (₹)
Credit Sales during the period	5,00,000
Less: Goods returned by the Customers, adjustment of credit note	30,000
Less: Payment received in cash	1,00,000
Less: Payment received by cheque less dishonored cheque (2,30,000 – 38,000)	1,92,000
Less: Bills Receivable accepted by Customer, yet to be matured (19,000 + 53,000)	72,000
Less: Adjustment of Credit Note raised	3,400
Net Receivable from Customer	1,02,600

Note: This reconciliation statement can be made against gross block of customers/debtors. However, it is advisable to ascertain individual reconciliation statement.

(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]

Answer:

(i) Freight and cartage totaling ₹ 650 should be treated as a Capital Expenditure because it will benefit the business for more than one accounting year.

(ii) Loss on sale of fixtures ₹ (2,500 – 1,600) = ₹ 900 should be treated as a Capital Loss. The cost of new fixtures and carriage thereon should be treated as a Capital Expenditure because the fixture will be used for a long period. So ₹ (4,000+100) the cost of new fixture will be ₹ 4,100.

(iii) Painting of the factory should be treated as a Revenue Expenditure because it has been incurred to maintain the factory building.

(iv) Repairing cost of second hand car should be treated as a Capital Expenditure because it will benefit the business for more than one accounting year.

(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]

Answer:

Books of ……………………

Journal

Date	Particulars	L.F.	Dr. Amount (₹)	Cr. Amount (₹)
	(1) Drawings A/c ……………………………………Dr. To Loss by Fire A/c [Cheque received against loss by fire deposited in the proprietor's private Bank, now rectified]		750	 750
	(2) Purchases A/c ……………………………………Dr. To Creditors A/c To Suspense A/c [Purchase of ₹ 151 entered in the Purchase Book as ₹ 15 and posted to Supplier's Account as 51, now rectified]		136	 100 36
	(3) Return Inward A/c ………………………………Dr. To Debtors A/c [Sales return not entered in the financial accounts, now recorded]		500	 500
	(4) Bank A/c …………………………………………Dr. To Discount Allowed A/c [Amount of ₹ 300 received in full settlement from a customer after allowing discount ₹ 50 but amount received entered in the discount column and discount allowed entered in the amount column, now rectified]		250	 250

Tutorial Note: Entry wise discussion:

(1)	For cheque received against loss by fire the entry should be: Bank A/c ……………………………………………………………Dr. To Loss by Fire A/c
	If that cheque is deposited into proprietor's private bank account the entry should be: Drawings A/c …..………………………………Dr. To Bank A/c For net recording → Drawings A/c debited and Loss by Fire A/c credited.
(2)	

Purchase A/c under debited by ₹ 151 – ₹ 15	₹ 136
Supplier's A/c under credited by ₹ 151 – ₹ 51	₹ 100
Net difference adjusted through suspense	₹ 36

(3) The correct entry now made.

(4) The correct entry should have been:

	Dr. Amount (₹)	Cr. Amount (₹)
Bank A/c…………………………… Dr.	300	
Discount Allowed A/c……………Dr.	50	
To Party A/c		350

The wrong entry has been:

	Dr. Amount (₹)	Cr. Amount (₹)
Bank A/c…………………………… Dr.	50	
Discount Allowed A/c……………Dr.	300	
To Party A/c		350

Rectification Entry:

	Dr. Amount (₹)	Cr. Amount (₹)
Bank A/c…………………………… Dr.	250	
To Discount Allowed A/c. [300 – 50]		250

3. (Answer any Two)

(a) (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, 2013 and that his son H should join B from 1st April 2013 and should be entitled to one-third of the profits of the partnership.

The balances in the firm's books on 31st 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 31st 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]

Answer:

Books of firm
Journal Entries

Date	Particulars	L.F.	Dr. (₹)	Cr.(₹)
31.3.13	Goodwill A/c Dr.		12,000	
	Building A/c Dr.		3,300	
	To A's Capital A/c			7,650
	To B's Capital A/c			7,650
	[Being profit on revaluation distributed between existing partners as 1 : 1]			
	A's Capital A/c Dr.		12,750	
	To H's Capital A/c			12,750
	[Being transfer of half of H's Capital Contribution from A's Capital]			
7.4.13	Bank A/c Dr.		27,900	
	To B's Capital A/c			15,150
	To H's Capital A/c			12,750
	[Being, Sufficient Cash introduced as Capitals]			
	A's Capital A/c Dr.		28,900	
	To Bank A/c			28,900
	[Being, the dues to the retiring partner paid off]			

Working Notes:

A. Estimated financial position on 7.4.2013 (after the transactions are over)

	₹	₹
Total Assets:		
Cash at Bank	10,000	
Sundry Debtors	14,100	
Furniture	14,200	
Buildings	24,000	
Goodwill	22,000	84,300
Less: External Liabilities : Sundry Creditors		7,800
Capitals of B & H		76,500

$\therefore$ B's Capital would be $\frac{2}{3}$ of 76,500 = ₹51,000 and H's Capital would be $\frac{1}{3}$ of ₹76,500 = ₹25,500

B. Adjustment related to Capital Accounts

	A (₹)	B (₹)	H (₹)
(a) Existing Capitals			
Balances as per last Balance Sheet	34,000	28,200	---
Profit on revaluation [24,000 –20,700]+[22,000–10,000] as 1 : 1	7,650	7,650	

Transfer between A and H [$\frac{1}{2}$ of 25,500]	-12750		+12,750
(b) Maintainable Capital	28,900 Nil	35,850 51,000	12,750 25,500
Amount Paid off or brought in	28,900 (paid)	15,150 (brought in)	12,750 (brought in)

(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]

Answer:

1. Annual Depreciation already charged: = $\frac{\text{Original Cost - Residual Value}}{\text{Estimated Working Life}}$

   = $\frac{₹5,20,000 - 20,000}{10}$

   = 50,000.
2. Total Depreciation charged so far [1998 to 2002 = 5 years] 50,000 × 5 = 2,50,000.
3. W. D. Value on 01.01.2003:

	₹
Original Cost	5,20,000
Less: Depreciation already charged	2,50,000
Unamortized original cost	2,70,000

4. Revised Annual Depreciation from 2003:

   $\frac{\text{Unamortised Original Cost - Residual Value}}{\text{REvised Remaining Working Life}} = \frac{₹2,70,000 - ₹20,000}{10}$ = ₹ 25,000.

b. The following is the balance sheet of CANJA on 31st 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 31st 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 31st 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]

Answer:

Draft Balance Sheet as at 31st March 2013

Liabilities	₹	₹	Assets	₹	₹
Capital		10,00,000	Fixed Assets	4,00,000	
Profit & Loss Account as on 1-4-2000	60,000		Additions	1,00,000	
Add: Net Profit for the year	3,74,000	4,34,000	Less: Depreciation	50,000	4,50,000
Creditors (Trade)		1,10,000	Stock in Trade		3,36,000
			Sundry Debtors		2,00,000
			Cash & Balances		5,58,000
		15,44,000			15,44,000

Working Note:

(i)

Projected Trading & Profit & Loss Account
for the year ending 31st March, 2013,

Dr. Cr.

Particulars	₹	Particulars	₹
To Opening Stock	3,00,000	By Sales	21,20,000
To Purchases	15,20,000	By Closing Stock (Balancing Figure)	3,36,000
To Gross Profit (30% on Sales)	6,36,000		
	24,56,000		24,56,000
To Sundry Expenses (10% of the Sales)	2,12,000	By Gross Profit b/d	6,36,000
To Depreciation	50,000		
To net Profit	3,74,000		
	6,36,000		6,36,000

(ii)

Cash and Bank Account

Dr. Cr.

Particulars	₹	Particulars	₹
To Balance b/d	3,50,000	By Sundry Creditors (₹ 1,40,000+14,10,000)	15,50,000
To Sundry Debtors (₹ 1,50,000+19,20,000)	20,70,000	By Expenses	2,12,000
		By Fixed Assets	1,00,000
		By Balance c/d	5,58,000
	24,20,000		24,20,000

(iii) It has been assumed that entire sales and purchases are on credit basis.

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 31st 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**
Purchased Goods Transferred:		
By Department B to A	**50,000**	
By Department A to B		**36,000**
Finished Goods Transferred:		
By Department B to A	**1,50,000**	
By Department A to B		**1,75,000**

Return of Finished Goods:		
By Department B to A	**45,000**	
By Department A to B		**32,000**
Closing Stock:		
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]

Answer:

Department Trading Account in the books of Mega Ltd.
for the year ended 31st March, 2014

Particulars	Department A (₹)	Department B (₹)	Particulars	Department A (₹)	Department B (₹)
To Opening Stock	70,000	54,000	By Sales	5,72,000	4,60,000
To Purchase	3,92,000	2,98,000	By Transfer:		
To Carriage Inward	6,000	9,000	Purchased Goods	36,000	50,000
To Wages	54,000	36,000	Finished Goods	1,30,000	1,18,000
To Transfers:			By Closing Stock:		
Purchased Goods	50,000	36,000	Purchased Goods	24,000	30,000
Finished Goods**	1,18,000	1,30,000	Finished Goods*	1,02,000	62,000
To Gross Profit c/d	1,74,000	1,57,000			
	8,64,000	7,20,000		8,64,000	7,20,000

*Finished goods from other department included in closing stock

Particulars	Department A (₹)	Department B (₹)
Stock of Finished Goods	1,02,000	62,000
Stock related to other department (30% of Finished Goods)	30,600	18,600

**Net transfer of Finished Goods by
Department A to B = ₹ (1,75,000 – 45,000) = ₹ 1,30,000
Department B to A = ₹ (1,50,000 – 32,000) = ₹ 1,18,000

Profit and Loss Account
for the year ended 31st March, 2014

Particulars	Amount (₹)	Particulars	Amount (₹)
To Provision for unrealized profit included in closing stock:		By Gross Profit b/d:	
(Department A) (W.N.2)	8,311	Department A	1,74,000
(Department B) (W.N.2)	4,611	Department B	1,57,000
To Net Profit	3,18,078		
	3,31,000		3,31,000

Working Notes:

1. Calculation of ratio of gross profit margin on sales

Particulars	Department A (₹)	Department B (₹)
Sales	5,72,000	4,60,000

Add: Transfer of Finished Goods	1,75,000	1,50,000
	7,47,000	6,10,000
Less: Return of Finished Goods	(45,000)	(32,000)
	7,02,000	5,78,000
Gross Profit	1,74,000	1,57,000
Gross Profit Margin =	$\frac{1,74,000}{7,02,000} \times 100 = 24.79\%$	$\frac{1,57,000}{5,78,000} \times 100 = 27.16\%$

2. Unrealised profit included in the closing stock
   Department A = 27.16% of ₹ 30,600 (30% of Stock of Finished Goods ₹ 1,02,000) = ₹ 8,311.00.
   Department B = 24.79% of ₹ 18,600 (30% of Stock of Finished Goods ₹ 62,000) = ₹ 4611.00.

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**
Transactions during the month of April, 2012 are:	
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]

Answer:

General Ledger Adjustment Account in Debtors Ledger

Date	Particulars	Amount (₹)	Date	Particulars	Amount (₹)
1.4.12	To Balance b/d	9,400	1.4.12	By Balance b/d	3,58,200
1.4.12	To Debtors Ledger Adj. A/c:		1.4.12	By Debtors ledger Adj. A/c:	
to	Cash Received	17,25,700	to	Credit sales	19,95,400
30.4.12	Sales returns	33,100	30.4.12	Cash paid for returns	6,000
	Bills receivable received	95,000		Bills receivable dishonoured	7,500
	Transfer to creditors ledger	16,000		By Balance c/d	9,800
30.4.12	To Balance c/d (Bal. Fig.)	4,97,700			
		23,76,900			23,76,900

(b) M/s. Big Systematic Ltd. maintains self-balancing ledgers preparing control accounts at the end of each calendar month.
On 3rd 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 28th December, 2012.
Pass the necessary Journal Entries to rectify the above mentioned errors. [4]

Answer:

Journal Entries
(In the books of M/s Big. Systematic Ltd.)

Date	Particulars	Dr. (₹)	Cr. (₹)
(i)	Mehta (In Sales/Debtors Ledger) Dr. To Mehra (In Sales/Debtors Ledger) (Being amount received from Mehra was wrongly credited to Mehta, now rectified)	8,700	8,700
(ii)	(a) Suspense Account (in Sales/Debtors Ledger) Dr. To Sales Account (in General Ledger)	1,000	1,000
	(b) Sales/Debtors Ledger Adjustment A/c (In General Ledger) Dr. To General Ledger Adjustment A/c (In Sales/Debtors Ledger) (Being rectification of the error due to under casting of the Sales Book)	1,000	1,000
(iii)	(a) M/s. Mega Ltd. A/c (In Creditors/Bought Ledger) Dr. To Purchase Returns A/c (In General Ledger)	15,600	15,600
	(b) Creditors/Bought Ledger Adjustment A/c (In General Ledger) Dr. To General Ledger Adjustment A/c (In Creditors/Bought Ledger) (Being goods returned to supplier not recorded earlier, now recorded)	15,600	15,600

(c) On 1st 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 31st 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 31st March, 2011 in the General Ledger of M/s. Zee Ltd. [4]

Answer:

Total Debtors Account in the General Ledger of M/s Zee Ltd.

Date	Particulars	Amount (₹)	Date	Particulars	Amount (₹)
1.10.10	To Balance c/d	77,500	1.10.10	By General Ledger Adj. A/c	
1.10.10	To General Ledger Adj. A/c		to	Cash collected	38,000
to	Sales (84,000 – 14,000)	70,000	31.3.11	Bills Receivable A/c	26,000
31.3.11	Bills Receivable (Bill Dishonored)	8,500		Discount allowed	1,000
	Bank (Noting Charges)	250		Sales Return	2,550
	Interest	1,250	31.3.11	By Balance c/d	89,950
		1,57,500			1,57,500

Working Note:

1. Bad debts of the year 2008-09 recovered in 2010-11 will not appear in the Total Debtors Account. It will be credited to profit & loss account.
2. Bills receivables of ₹ 5,000 endorsed to the supplier will not be shown in the 'Total Debtors account because at the time of endorsement Supplier's account will be debited and Bills receivable account will be credited.

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]

Answer:

Computation of Estimated Profit as per AS 7

Particulars	₹
Expenditure incurred upto 31.3.2010	9,90,000
Estimated additional expenses (including provision for contingency)	60,000
Estimated cost (A)	10,50,000
Contract price (B)	12,50,000
Total estimated profit [(B-A)]	2,00,000
Percentage of completion (9,90,000 ÷ 10,50,000) × 100	94.29%

Computation of estimate of the profit to be taken to Profit and Loss Account:

$$= \text{Total estimated profit} \times \frac{\text{Expenses incurred till 31.03.2010}}{\text{Total estimated cost}} = 2{,}00{,}000 \times \frac{9{,}90{,}000}{10{,}50{,}000} = 1{,}88{,}571.$$

Provision:
According to AS 7 'Construction Contracts', when the outcome of a construction contract can be estimated reliably, contract revenue and contract costs associated with the construction contract should be recognised as revenue and expenses respectively by reference to stage of completion of the contract activity at the reporting date.

Analysis and Conclusion:
Therefore estimated profit amounting ₹1,88,571 should be recognised as revenue in the statement of profit and loss.

(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

Answer:

Analysis:

According to AS 9 "Revenue Recognition", in a transaction involving the sale of goods, performance should be regarded as being achieved when the following conditions are fulfilled:

(i) The seller of goods has transferred to the buyer the property in the goods for a price or all significant risks and rewards of ownership have been transferred to the buyer and seller retains no effective control of the goods transferred to a degree usually associated with ownership; and
(ii) No significant uncertainty exists regarding the amount of the consideration that will be derived from the sale of the goods.

Conclusion:
In the given problem transfer of property in goods results in or coincides with the transfer of significant risks and rewards of ownership to the buyer. Also, the sale price has been recovered by the seller. Hence, the sale is complete but delivery has been postponed at buyer's request. A Ltd. should recognize the entire sale of ₹ 1,00,000 (₹ 25,000 × 4) and no part of the same is to be treated as Advance Receipt against Sales.

(c) State the scope of AS-5 (Net profit or loss for the prior, prior period items and changes in accounting policies). [4]

Answer:
Scope
(i) This standard should be applied by an enterprise in presenting profit or loss from ordinary activities, extraordinary items and prior period items in the statement of profit and loss, in accounting for changes in accounting estimates, and in disclosure of changes in accounting policies.
(ii) This standard deals with, among other matters, the disclosure of certain items of net profit or loss for the period. These disclosures are made in addition to any other disclosures required by other Accounting Standards.
(iii) This standard does not deal with the tax implications of extraordinary items, prior period items, changes in accounting estimates, and changes in accounting policies for which appropriate adjustments will have to be made depending on the circumstances.

6. (Answer any Two)

(a) On 1st 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 31st 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 31st 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]

Answer:

Investment Account in the books of Mr. Neel
For the year ended 31st March, 2009
(Scrip : Equity shares of X Ltd.)

Dr. Cr.

Date	Particulars	Nominal Value (₹)	Cost (₹)	Date	Particulars	Nominal Value (₹)	Cost (₹)
1.4.08	To Bank A/c (W.N.1)	5,00,000	6,15,000	31.309	By Bank A/c (W.N.2)	2,50,000	2,20,500

31.1.09	To Bonus Shares	2,50,000	---	31.3.09	By Balance c/d (W.N.4)	5,00,000	4,10,000
31.3.09	To P&L A/c (W.N.3)	---	15,500				
		7,50,000	6,30,500			7,50,000	6,30,500

Working Notes:

1. Calculation of cost of equity shares purchased on 1.4.08
   = 5,000 × ₹ 120 + 2% of ₹ 6,00,000 + ½% of ₹ 6,00,000 = ₹ 6,15,000.

2. Calculation of profit proceeds of equity shares sold on 31.3.09
   = 2,500 × ₹ 90 – 2% of ₹ 2,25,000 = ₹ 2,20,500

3. Calculation of profit on sale of bonus shares on 31.3.09
   = Sale proceeds – Average cost
   = 2,20,500 – 2,05,000 i.e. (₹ 6,15,000 × $\frac{2,50,000}{7,50,000}$)= ₹ 15,500.
4. Valuation of equity shares on 31.3.09
   Cost = 6,15,000 × $\frac{5,00,000}{7,50,000}$ = ₹ 4,10,000
   Market value = 5,000 shares × ₹ 90 = ₹ 4,50,000
   Closing Balance has been valued at ₹ 4,10,000 i.e., at cost which is lower than the market value.

(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 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]

Answer:

Books of B of Bombay (Consignor)
Consignment to Kanpur Account

Dr. Cr.

Particulars	Amount (₹)	Particulars	Amount (₹)
To Goods sent on Consignment A/c [400 × ₹ 300]	1,20,000	By Damage in Transit A/c [Note 1]	18,300
To Cash/Bank : Freight & Insurance	2,000	By K A/c: Sales [280 × 360]	1,00,800
To K A/c:		By Stock on Consignment A/c [Note 2]	18,900
Godown Rent 1,400		By Profit & Loss A/c (Loss on Consignment)	*480
Carriage Outward 1,000			
Clearing Charges 3,400	5,800		
To K A/c: Commission [10% of 1,06,800]	10,680		
	1,38,480		1,38,480

Damage in Transit Account

Dr. Cr.

Particulars	Amount (₹)	Particulars	Amount (₹)
To Consignment to Kanpur A/c	18,300	By Cash A/c (Ins. Claim Received)	400
		By K A/c [60 × ₹ 100]	6,000
		By Profit & Loss A/c (Loss)	11,900
	18,300		18,300

K Account

Dr. Cr.

Particulars	Amount (₹)	Particulars		Amount (₹)
To Consignment to Kanpur A/c	1,00,800	By Bills Receivable A/c		60,000
To Damage in Transit A/c (Sale of Damaged Goods)	6,000	By Consignment to Kanpur A/c		
		Expenses	5,800	
		Commission	10,680	16,480
		By Bank (Balance)		30,320
	1,06,800			1,06,800

Working Note:

1. **Damage in Transit**

	No. of Packages	Amount (₹)
Goods Sent	400	1,20,000
Add: Consignor's Expenses		2,000
	400	1,22,000
	60	$1,22,000 \times \frac{60}{400}$ = ₹ 18,300

2. Stock on Consignment [Quantity = 400 – (60 + 280) = 60]

	Amount (₹)
Value excluding Consignee's Expenses	18,300
Add: Non-Recurring Expenses of Consignee [Consignee paid ₹ 3,400 as clearing charges for 340 packages. So for 60 packages it should be 60 × ₹ 10]	600
	18,900

***Actual Loss on Consignment**

	Amount (₹)
Loss as per Consignment A/c	₹ 480
Abnormal Loss to be written off	₹ 11,900
	*12,300

(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]**

Answer:

Books of Disha Gadgets Ltd.
Journal

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
	Sales A/c [20 × ₹ 100] Dr. To Sundry Debtors A/c [Adjustment made for 20 ovens invoiced at ₹ 1,500 each and included in sales at that price, accepted at ₹ 1,400 each]		2,000	 2,000
	Sales A/c [{150 – 20} × ₹ 1,500] Dr. To Sundry Debtors A/c [130 ovens invoiced at ₹ 1,500 each yet to be confirmed and adjusted]		1,95,000	 1,95,000
	Stock on Sale or Return A/c Dr. To Trading A/c [130 × ₹ 1,200] [Unconfirmed goods lying with customers included in Stock at Cost Price]		1,56,000	 1,56,000

(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]

Answer:

(a) Computation of Gross Profit

$$\text{Gross Profit} = \frac{\text{Net Profit} + \text{Insured Standing Charges}}{\text{Turnover}} \times 100 = \frac{45{,}000 + 90{,}000}{4{,}50{,}000} \times 100 = 30\%.$$

(b) Computation of policy amount to cover loss of profit

Particulars	₹
Turnover in the last financial year	4,50,000
Add: 25% increase in turnover	1,12,500
	5,62,500
Gross profit on increased turnover (5,62,500 × 30%)	1,68,750
Add: Additional standing charges	31,250
Policy Amount	2,00,000

Therefore, the trader should go in for a loss of profit policy of ₹ 2,00,000.

7. (Answer any Two)

(a) The following is an extract from the Trial Balance of Dream Bank Ltd. as at 31st 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 31st March, 2012 and pass Journal Entries. The rate of discount may be taken at 10% per annum. [8]

Answer:

Calculation of Amount of Unexpired Discount

Date of Maturity	No. of Days after 31.03.2012	Amount (₹)	Total Annual Discount @ 10%	Proportionate Amount of Unexpired Discount
June 1, 2012	62 days	2,80,000	28,000	4,756
June 8, 2012	69 days	8,72,000	87,200	16,484
June 21, 2012	82 days	5,64,000	56,400	12,671
July 1, 2012	92 days	8,12,000	81,200	20,467
July 5, 2012	96 days	6,00,000	60,000	15,781
		31,28,000	3,12,800	70,159

The Amount of discount to be credited to Profit and Loss A/c will be:

	₹
Transfer from Rebate on bills discount as on 01.04.2011	68,259
Add: Discount received	1,70,156
	2,38,415
Less: Rebate on bills discounted as on 01.04.2012	70,159
	1,68,256

Journal Entries

Particulars	L.F.	Dr. (₹)	Cr. (₹)
Rebate on Bills Discounted A/c Dr. To Discount on Bills A/c [Being the transfer to Discount on bills A/c]		68,259	68,259
Discount on Bills A/c Dr. To Rebate on Bills Discounted A/c [Being the transfer of Rebate on bills discounted required on 31.03.12 from Discount on Bills A/c]		70,159	70,159
Discount on Bills A/c Dr. To Profit and Loss A/c [Being the amount of Discount on bills transferred to P&L A/c]		1,68,256	1,68,256

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

(1) Date of commercial operation / work completed date: 1st 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]

Answer:

(a) Average Capital Cost

Capital Cost

(₹ in crores)

	2010-11(₹)	2011-12(₹)	2012-13(₹)
Opening Capital Cost (A)	135.39	137.02	138
Additional capital expenditure (allowed above) (B)	1.63	0.98	0.52
Closing capital cost (A)+(B)	137.02	138	138.52
Average capital cost	136.21	137.51	138.26

(b) Return on Equity
Debt Equity Ratio
Debt-Equity ratio for the purpose of return on equity for the period 2010-13 is 70:30

	2010-11 (₹)	2011-12 (₹)	2012-13 (₹)
Opening Capital Cost (A)	135.39	137.02	138
Equity Opening considered now [(A)×0.30]=(B)	40.617	41.106	41.4
Additional allowable capital expenditure (C)	1.63	0.98	0.52
Addition of Equity due to admitted additional capital expenditure [(C) × 0.30] = (D)	0.489	0.294	0.156
Equity-Closing [(B) + (D)] = (E)	41.106	41.4	41.556
Average equity [(B)+(E)]/2 = (F)	40.861	41.253	41.478
Return on Equity @ 14% of (F)	5.720	5.775	5.807

(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]

Answer:

Calculation of premium credited to revenue account

	₹
Premium on New Policy	5,90,000
Add: Premium on Renewal of policy	1,20,000
Add: Premium on Reinsurance Accepted	90,000
	8,00,000

Less: Premium on Reinsurance ceded	70,000
Net Premium credited to Revenue Account	7,30,000

(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]

Answer:

Form B – RA
(Prescribed by IRDA)
Name of the Insurer: X Fire Insurance Co. Ltd.
Registration No. and Date of registration with the IRDA:
Revenue Account for the year ended 31st March, 2013

S.N.	Particulars	Schedule	Current year ended on 31st March, 2013 (₹)
1.	Premiums earned (Net)	1	8,40,000
	Total (A)		8,40,000
1.	Claims incurred (Net)	2	8,00,000
2.	Commission	3	50,000
3.	Operating Expenses	4	3,00,000
	Total (B)		11,50,000
	Operating Profit/(Loss) from Fire Insurance Business [C=(A-B)]		(3,10,000)

Schedule 1

Premiums earned (Net)

	₹
Premium received	15,00,000
Less: Premium on re-insurance paid	(1,00,000)
	14,00,000
Less: Reserve required for unexpired risk @ 40% of Net Premium	5,60,000
Net Premium Earned	8,40,000

Schedule 2

Claims

	₹
Claims paid	7,00,000
Add: Claims outstanding on 31.03.2013	1,00,000
	8,00,000

Schedule 3

Commission

	₹
Commission paid during the year	50,000
Total in the Year	50,000

Schedule 4

Operating Expenses

	₹
Expenses of Management	3,00,000