Paper-5 : FINANCIAL ACCOUNTING

1. (a) State the objectives of Accounting.

(b) Discuss the qualitative characteristics of Accounting Information.

(c) The firm of M/s Lalit and Basanta had the following balances in their ledger accounts on April 12, 2015:

	₹
Cash	**40,000**
Stock	**42,000**
Machinery	**1,19,000**
Debtors	**49,000**
Creditors	**32,000**
Capital	**2,18,000**

You are required to pass the Opening Journal Entry.

(d) Would you consider the following items chargeable to capital expenditure or revenue?

A. (i) Accrued Dividend or Interest, included in the cost price of investment.

(ii) Lawyer's fees for drafting an agreement of lease of immovable property.

(iii) Construction of students common room by a college.

B. (i) Cost of dismantling, removing and re-installing plant in connection with removal of works to a more suitable locality.

(ii) Cost of imported goods confiscated by customs Authorities for non-disclosure of material facts.

(iii) Cost incurred for a successful visit of the Sales Manager abroad.

Answer:

1. (a) The main objective of Accounting is to provide financial information to stakeholders. This financial information is normally given via financial statements, which are prepared on the basis of Generally Accepted Accounting Principles (GAAP). There are various accounting standards developed by professional accounting bodies all over the world. These standards basically deal with accounting treatment of business transactions and disclosing the same in financial statements.

(i) Systematic recording of transactions
(ii) Ascertainment of the results of the above transactions
(iii) Ascertainment of the Financial Position of business
(iv) Analysing the liquidity solvency position
(v) Providing a record for compliance with statutes and laws applicable
(vi) Disclosure of information needed by different stakeholders.

1. (b) Qualitative characteristics are the attributes that make the information provided in financial statements useful to its users.

Qualitative Characteristics of Accounting Information can be segregated in the following categories
(i) Reliability
(ii) Relevance
(iii) Materiality
(iv) Understandability
(v) Comparability

(i) Reliability - To be useful, information must also be reliable. Information has the quality of reliability when it is free from material error and bias and can be depended upon by users to represent faithfully that which it either portrays to represent or could reasonably be expected to represent. Information may be relevant but so unreliable in nature or representation that its recognition may be potentially misleading and so it becomes useless.

(ii) Relevance- To be useful, information must be relevant to the decision-making needs of users. Information has the quality of relevance when it influences the economic decisions of the users by helping them to evaluate past, present or future events or confirming or correcting their past evaluation.

(iii) Materiality - The relevance of information is affected by its nature and materiality. Information is material if its omission or mis-statement could influence the economic decisions of users made on the basis of financial statements. Materiality depends on the size of the item or error judged in the particular circumstance of its omission or mis-statement.

(iv) Understandability - The information provided in financial statements must be easily understandable by users. For this purpose, users are assumed to have a reasonable knowledge of business and economic activities, accounting and a willingness to study the information with reasonable diligence.

(v) Comparability - The financial statements of an enterprise should be comparable. For this purpose users should be informed of the accounting policies, any changes in those policies and the effects of such changes. This qualitative characteristic requires pursuance of consistency in choosing accounting policies. Lack of consistency may disturb the comparability quality of the financial statement information.

1. (c)

Journal Proper

Date	Particulars		L.F.	Dr. Amount ₹	Cr. Amount ₹
1.4.15	Cash A/c	Dr.		40,000	
	Stock A/c	Dr.		42,000	
	Machinery A/c	Dr.		1,19,000	
	Debtors A/c	Dr.		49,000	
	To Creditors A/c				32,000
	To Capital A/c				2,18,000
	(Balances of last year brought forward)				

1. (d)

A. (i) The accrued interest or dividend must be related to a period before the date of purchase of the investment.

For this it has been included in the cost price of investment.

The cost of investment minus that accrued Interest or Dividend is a capital expenditure. It is the cost of acquisition of an asset. The payment for the accrued interest or dividend is a revenue expenditure. It will be set off by a revenue receipt when such interest or dividend will be received.

(ii) Lease of the property is a fixed asset. The lawyer's fees are incidental costs of its acquisition. Such fees are capital expenditure.

(iii) It will cause an addition to the College building, a fixed asset. So it is a capital expenditure.

B. (i) The dismantling etc. is required for removal of works to a better place. Its benefit is expected to be realized after the removal. The benefit cannot be measured objectively. Hence it is not a capital expenditure. The cost of dismantling the plant should not be added with the cost of the plant. A similar judgement in **Sitalpur Sugar Works Ltd. vs. C. I. T.** was affirmed by the Supreme Court in 1963.

However the benefit will not expire within the current accounting period only. The cost should be treated as a deferred revenue expenditure.

(ii) It is a revenue loss. It has arisen in course of the normal business activities. But it is an abnormal loss of non-regular and non-recurring nature. It should be written off over more than a year as a deferred revenue expenditure.

(iii) The purpose ol the visit of the Sales Manager was to advertise abroad. It has been successful. So the cost related to his visit should be treated as a deferred revenue expenditure.

2. (a) In Raghu Nath Ltd., theft of cash of ₹ 2 lakhs by the cashier in January, 2014 was detected in May, 2014. The accounts of the company were not yet approved by the Board of Directors of the company.

Whether the theft of cash has to be adjusted in the accounts of the company for the year ended 31.3.2014. Decide.

(b) While finalizing the financial statements of the year ending 31.03.2015 the company finds that the stock sheets of 31.03.2014 did not include two pages containing details of inventory worth ₹ 67 lakhs. Comment.

(c)

Goods purchased on 24.2.2013 of US $ 1,000	**₹ 46.60 per US$**
Exchange Rate on 31.3.2013	**₹ 47.00 per US $**
Date of actual payment 05.06.2013	**₹ 47.50 per US $**

Calculate the loss/gain for the financial year 2012-2013 and 2013-2014 as per AS 11.

(d) Moon Co-operative society Ltd has borrowed a sum of US $12.50 million at the commencement of the financial year 2012-2013 for its solar energy project at UBOR (London Interbank offered rate of 1%) + 4%. the Interest is payable at the end of the respective financial year. The loan was availed at the then rate of ₹ 45 to US dollar while the rate as on 31st March, 2013 is ₹ 48 to the US dollar. Had Sun Co-operative

Society Ltd. Borrowed the Rupee equivalent in India, the interest would have been 11%. You are required to compute 'Borrowing Cost' also showing the amount of exchange difference as per prevailing Accounting Standards.

Answer:

2. (a)

As per AS 4(revised), assets and liabilities should be adjusted for events occurring after the balance sheet date that provide additional evidence to assist the estimation of amounts relating to conditions existing at the balance sheet date.

Since the theft of cash is an additional information materially affecting the determination of the cash amount relating to conditions existing at the balance sheet date, it is necessary to adjust theft of cash in the financial statements of the company for the year ended 31st March, 2014.

2. (b)

As per AS-5 prior period items are incomes or expenses which arise in the current period as a result of errors or omissions in the preparation of the financial statements of one or more prior periods. The nature and amount of prior period items should be separately disclosed in the statement of profit and loss in a manner that their impact on the current profit or loss can be perceived.

Advice In this case stock sheet of 31/03/2014 (prior year) did not include two pages containir inventory worth ₹ 25 lakhs which is the omission, and this omission was detected in curren 31/0312015. Therefore, it is a prior item. It has resulted in under statement of profit of previous p to be passed is as under:

JOURNAL ₹ in Lakhs

Opening Inventory A/c	Dr.	67	
To Prior Period Income			67
Prior Period Income	Dr.	67	
To Profit and Loss A/c			67

2. (c)

Treatment at Date of Transaction

Treatment As per para 9 of AS 11 on 'The Effects of Changes in Foreign Exchange Rates', at Date of a foreign currency transaction should be recorded, on initial recognition in the Transactlon reporting currency, by applying to the foreign currency amount the exchange rate between the reporting currency and the foreign currency at the date of the transaction.

Accordingly, goods purchased on 24.02.2013 and corresponding creditors would be recorded at ₹ 46.60 = 1 US $ i.e. 1,000 x 46.60 = ₹ 46,600.

As per para 11 of AS 11, at balance sheet date all monetary items should be reported using the closing rate, therefore creditors of US$ 1,000 outstanding on 31.03.2013 will be reported. i.e. 1,000 x 47.00 = ₹47,000.

Exchange Loss (47,000 - 46,600) = ₹400 should be debited in Profit and loss Account for the year 2012-2013.

Exchange differences on settlement of monetary items should be transferred to Profit and loss Account as gain or loss, therefore 1,000 x 47.50 = 47,500 - 47,000 = ₹ 500 will be debited to Profit and loss Account for the year 2013-2014.

2. (d) Calculation of the amount of Exchange Difference arising from Foreign Currency borrowings to the extent that they are regarded as an adjustment to Interest Costs

	Particulars	(₹ in lacs)
A	Increase in liability towards principal amount [USD 12.50 x (₹ 48 – ₹ 45)]	37.50
B	Interest on foreign currency borrowing [USD 12.50 x ₹ 48 x 5%]	30.00
C	Exchange differences on the amount of principal of the foreign currency borrowings (A + B)	67.50
D	Interest on local currency borrowings [USD 12.50 x ₹ 45 x 11%]	61.875
E	Total borrowing costs as per AS 16 (C or D whichever is less)	61.875
F	Exchange difference to be treated as per AS 11 (C - D)	5.625

3. (a) Piklu purchases goods on credit from various suppliers. However, there is a difference of opinion which has arised with one of its suppliers. While the Supplier claims that the amount receivable from Piklu is ₹ 1,26,500, on the other hand, Piklu claims that the amount payable is ₹ 1,17,500. On evaluation of records the following were identified:

(i) A purchase of ₹ 35,500 was recorded by the supplier as ₹ 39,000.

(ii) Goods returned by Piklu amounting to ₹ 2,500, but the stock is in transit and has not reached the supplier/vendor.

(iii) Cheques issued to vendor for ₹ 14,000, in transit.

(iv) Bills raised for goods purchased from the supplier, amounting ₹ 11,000, but goods are yet to reach the warehouse/godown of Piklu.

Prepare a suitable Reconciliation statement.

(b) Asim's financial year ends on 31st March, but actual stock has not been taken till the 8th April, when it is ascertained at ₹ 12,500. You find that —

(i) Sales are entered in the Sales Book on the day of dispatch and in the Returns Inward Book on the day the goods are received back.

(ii) Purchases are entered in the Purchases Book on the day the invoices are received.

(iii) Sales between 31st March and 8th April as per Sales Day Book and Cash Book ₹860.

(iv) Purchases between 31st March and 8th April as per the Purchases Book are ₹ 600 but goods amounting to ₹ 200 are not received till the stock was taken.

(v) Of goods invoiced during March, goods amounting to ₹ 500 were not received till 31st March, of which goods worth ₹ 350 were received between 31st March and 8th April.

(vi) Rate of Gross Profit is $33\frac{1}{3}$% on cost.

Ascertain the value of stock as on 31st March.

Answer:

3. (a) Amount due to Supplier – Payable Reconciliation Statement

Particulars	Amount (₹)
Amount due to supplier (as per books of the Supplier)	1,26,500
Less: Overstatement of sales figure in the books of supplier (i.e. goods sold by supplier to Piklu for ₹ 35,500 but recorded as ₹ 39,000)	3,500
Less: Goods returned to supplier, now in transit	2,500
Less: Cheques issued to vendor, now in transit	14,000
Add: Bills raised against goods purchased, not stock-in-transit, i.e. not yet reached the warehouse of the supplier	11,000
Amount due to supplier (as per books of Picklu)	1,17,500

3. (b) Statement Showing Value of Stock as on 31st March,

		Amount ₹	Amount ₹
	Stock on 8th April		12,500
Add:	Cost of Goods Sold between 1st April and 8th April [Sales at Selling Price – $\frac{1}{4}$ th of sales = ₹ 860 – ₹ 215]		645
			13,145
Less:	Purchase between 1st April and 8th April [₹ 600 – ₹ 200]	400	
	Goods Purchased in March but received after 31st March	350	750
	Stock on 31st March		12,395

4. (a) On 1st April, 2010, M/s. N. R. Sons & Co. purchased four machines for ₹2,60,000 each. On 1st April, 2011, one machine was sold for ₹2,05,000. On 1st July, 2012, the second machine was destroyed by fire and insurance claim received ₹ 1,75,000 on 15th July,2012. A new machine costing ₹ 4,50,000 was purchased on 1st October, 2012. Books are closed on 31st March every year and depreciation has been charged @15% per annum on diminishing balance method. You are required to prepare machinery account for 4 years till 31st March, 2014. (Calculations to be shown in nearest rupee)

(b) Shyama Limited purchased a second-hand plant for ₹ 7,50,000 on 1st July, 2011 and immediately spent ₹ 2,50,000 in overhauling. On 1st January, 2012 an additional machinery at a cost of ₹ 6,50,000 was purchased. On 1st October, 2013 the plant purchased on 1st July, 2011 became obsolete and it was sold for ₹ 2,50,000. On that date a new machinery was purchased at a cost of ₹ 15,00,000. Depreciation was provided @ 15% per annum on diminishing balance method. Books are closed on 31st March in every year.
You are required to prepare Plant and Machinery Account upto 31st March, 2014.

Answer:

4. (a)

Dr. Machinery Account Cr.

Date	Particular	Amount ₹	Date	Particular	Amount ₹
1.04.10	To Bank A/c	10,40,000	31.03.11	By Depreciation A/c	1,56,000
			31.3.11	By Balance c/d	8,84,000
		10,40,000			10,40,000
1.04.11	To Balance b/d	8,84,000	1.04.11	By Bank a/c (machinery sold)	2,05,000
			31.03.12	By Depreciation	99,450
			31.03.12	By P& L A/c (Loss on sale of machinery)	16,000
			31.03.12	By Balance c/d	5,63,550
		8,84,000			8,84,000
1.04.12	To Balance b/d	5,63,550	1.07.12	By Insurance company (Insurance claim)	1,75,000
1.10.12	To Bank	4,50,000	31.03.13	By Depreciation A/c	97,149
			31.03.13	By P&L A/c (Loss on destroyed of machine)	5,806
			31.03.13	By Balance c/d	7,35,595
		10,13,550			10,13,550
1.04.13	To Balance b/d	7,35,595	31.03.14	By Depreciation	1,10,339
			31.03.14	By Balance c/d	6,25,256
		7,35,595			7,35,595
1.04.14	To Balance b/d	6,25,256			

Workings

Particulars	M-1	M- 2	M-3	M- 4	M- 5
01.04.2010 Purchased of Machinery	2,60,000	2,60,000	2,60,000	2,60,000	-
Less: Depreciation@15% p. a	39,000	39,000	39,000	39,000	-
W.D.V. on 31.03.11	2,21,000	2,21,000	2,21,000	2,21,000	-
Less: sold of machinery on 01.04.11	2,05,000	-	-	-	-
Loss on Sale	16,000	-	-	-	-
Less: Depreciation @ 15% P.a.	-	33,150	33,150	33,150	-
W. D. V. on 31.03.12		1,87,850	1,87,850	1,87,850	-
Less: Depreciation @ 15% for 3 months i.e. 01.04.12- 01.07.12	-	7,044	-	-	-
		1,80,806	1,87,850	1,87,850	
Less: Amount recd from Insurance claim		1,75,000			
Loss on fire		5,806			
On 10.10.12 Purchased of machinery					4,50,000
Less: Depreciation of 2 machines for full years			28,178	28,177	

			1,59,672	1,59,673	
Less: Depreciation for 6th months of new machinery			-	-	33,750
W.D.V. for 31.03.13			1,59,672	1,59,673	4,16,250
Less Depreciation for full year @ 15% p.a.			23,951	23,950	62,438
			1,35,721	1,35,723	3,53,812

4. (b)

Books of Shyama Limited

Dr. Plant & Machinery Account Cr.

Date	Particulars	₹	Date	Particulars	₹
1.7.11	To Bank A/c (7,50,000 + 2,50,000)	10,00,000	31.3.12	By Depreciation A/c	1,36,875
1.1.12	To Bank A/c	6,50,000	31.3.12	By Balance c/d	15,13,125
		16,50,000			16,50,000
1.4.12	To Balance b/d	15,13,125	31.3.13	By Depreciation @ 15% on ₹ 15,13,125	2,26,969
				By Balance c/d	12,86,156
		15,13,125			15,13,125
1.4.13	To Balance b/d	12,86,156	1.10.13	By Bank A/c (Sale)	2,50,000
1.10.13	To Bank A/c	15,00,000	31.3.14	By P&L A/c (Loss on Sale)	4,47,797
			31.3.14	By Depreciation A/c	2,48,845
			31.3.14	By Balance c/d	18,39,514
		27,86,156			27,86,156

Working Notes:

Written down value of Machinery which is purchased on 01.07.2011.

On 01.07.2011	10,00,000
Less: Depreciation for 2011-12 of 9 months (10,00,000 x 15% x 9/12)	1,12,500
W.D.V. for 2012-13	8,87,500
Less: Depreciation for 2012-13	1,33,125
W.D.V. for 2013-14	7,54,375
Less: Depreciation for 6 months on (7,54,375 x 15% x 6/12)	56,578
W.D.V.	6,97,797
Less: Selling Price	2,50,000
Less on Sale of Machinery	4,47,797

Total Depreciation

A. Machinery Purchased on 01.01.2012

On 01.01.2012	6,50,000
Less: Depreciation for 3 months of 2011-12	24,375
W.D.V.	6,25,625
Less: Depreciation for 2012-13 (6,25,625 x 15%)	93,844
W.D.V.	5,31,781
Less: Depreciation for 2013-14	79,767
W.D.V.	4,52,014

B.

Machinery Purchased on 01.10.2013	15,00,000
Less: Depreciation for 6 months (15,00,000 x 15% x 6/12)	1,12,500
	13,87,500

Total Depreciation ₹ (1,12,500 + 79,767 + 56,578)
= ₹ 2,48,845

5. (a) Calculate (i) Current Ratio, (ii) Quick Ratio, (iii) Inventory Turnover Ratio (based on sales), (iv) Debtors Turnover Ratio, (v) Average Collection Period, (vi) Creditors Turnover Ratio and (vii) Creditors Average Payment Period from the information given below, related to the Balance Sheet of Andhra Company as on 31.03.2014.

Balance Sheet of Andhra company as on 31.03.2014

Liabilities	₹	Assets	₹
Share Capital	4,10,000	Goodwill	2,50,000
Reserve	2,80,000	Plant and Machinery	3,00,000
10% debentures	3,50,000	Land and Building	2,50,000
Loan	1,60,000	Patents	60,000
Creditors	1,00,000	Stock	2,80,000
Bills payable	20,000	Debtors	1,80,000
Outstanding expenses	50,000	Marketable securities	28,000
Tax Provision	30,000	Cash balance	52,000
	14,00,000		14,00,000

Additional information: Sales and purchases were ₹5,60,000 and ₹1,20,000 respectively. Assume 1 year = 365 days.

(b) The following Trail Balance has been extracted from the books of Mr. Agarwal as on 31.3.2015:

Trial Balance as on 31.3.2015

Particulars	Dr. (₹)	Particulars	Cr. (₹)
Purchase	6,80,000	Sales	8,38,200
Sundry Debtors	96,000	Capital Account	1,97,000
Drawings	36,000	Sundry Creditors	1,14,000
Bad Debts	2,000	Outstanding Salary	2,500
Furniture & Fixtures	81,000	Sale of Old Papers	1,500
Office Equipments	54,000	Bank Overdraft (UBI)	60,000
Salaries	24,000		
Advanced Salary	1,500		
Carriage Inward	6,500		
Miscellaneous Expenses	12,000		
Travelling Expenses	6,500		
Stationery & Printing	1,500		
Rent	18,000		
Electricity & Telephone	6,800		
Cash In Hand	5,900		
Cash at Bank (SBI)	53,000		
Stock (1.4.2014)	50,000		
Repairs	7,500		
Motor Car	56,000		

Depreciation: **Furniture 9,000** **Office Equipment 6,000**	**15,000**		
	12,13,200		**12,13,200**

Additional Information:

(i) Sales includes ₹ 60,000 towards goods for cash on account of a joint venture with Mr. Reddy who incurred ₹ 800 as forwarding expenses. The joint venture earned a profit of ₹ 15,000 to which Mr. Reddy is entitled to 60%

(ii) The motor car account represents an old motor car which was replaced on 1.4.2014 by a new motor car costing ₹1,20,000 with an additional cash payment of ₹40,000 laying debited to Purchase Account.

(iii) UBI has allowed an overdraft limit against hypothecation of stocks keeping a margin of 20%. The present balance is the maximum as permitted by the Bank.

(iv) Sundry Debtors include ₹4,000 as due from Mr. Trivedi and Sundry Creditors include ₹ 7,000 as payable to him.

(v) On 31.3.2015 outstanding rent amounted to ₹ 6,000 and you are informed that 50% of the total rent is attributable towards Agarwal's resident.

(vi) Depreciation to be provided on motor car @ 20% (excluding sold item).

Mr. Agarwal requests you to prepare a Trading and Profit & Loss Account for the year ended 31.3.2015 and a Balance Sheet as on that date.

Answer:

5. (a) Calculation of Ratios:

(i) Current Ratio = Current Assets/Current Liabilities = 5,40,000/2,00,000 = 2.70
(ii) Quick Ratio = Quick Assets/ Current Liabilities = 2,60,000/2,00,000 = 1.30
(iii) Inventory Turnover Ratio= Total Sales/Closing Inventory =5,60,000/2,80,000 = 2.00
(iv) Debtors Turnover Ratio= Total Sales/ Closing Debtors = 5,60,000/1,80,000 =3.11
(v) Average Collection Period = 365/Debtors Turnover Ratio =365/3.11=117.36 days
(vi) Here Creditors Turnover Ratio = Total Purchase /Closing Creditors.
Closing Creditors = Accounts Payable
And Accounts payable = Creditors + Bills Payable
Creditor turnover ratio = Total purchase/ Accounts Payable = 1,20,000/1,20,000= 1.00
(vii) Creditors Average Payment Period= 365/creditor turnover ratio= 365/1.00 = 365 days.

5. (b)

In the books of Mr. Agarwal
Trading and Profit and Loss Account
Dr. for the year ended 31st March, 2015 Cr.

Particulars	Amount (₹)	Amount (₹)	Particulars	Amount (₹)	Amount (₹)

To, Opening Stock		50,000	By, Sales	8,38,200	
`` Purchases	6,80,000		Less: Sale on account of Joint Venture	60,000	7,78,200
Less: Motor Car	40,000	6,40,000			
			`` Closing Stock (W.N. 1)		75,000
`` Carriage Inward		6,500			
`` Profit & Loss A/c -Gross Profit transferred		1,56,700			
		8,53,200			8,53,200
To, Salaries		24,000	By, Trading A/c. -Gross Profit transferred		1,56,700
`` Travelling Expenses		6,500	`` Sale of old papers		1,500
`` Printing & Stationery		1,500	`` Profit on Joint Venture (40% of ` 15,000)		6,000
`` Electricity & Telephone		6,800	`` Profit on replacement of Motor Car (W. N. 2) [(1,20,000–(56,000+40,000)]		24,000
`` Rent	18,000				
Add: Outstanding	6,000				
	24,000				
Less: Drawings	12,000	12,000			
`` Bad Debts		2,000			
`` Miscellaneous Expenses		12,000			
`` Repairs		7,500			
`` Depreciation on:					
Furniture	9,000				
Office Equipment	6,000				
Motor Car (W.N. 3)	24,000	39,000			
`` Capital Account - Net Profit transferred		76,900			
		1,88,200			1,88,200

Balance Sheet
as at 31st March, 2015

Liabilities	Amount (₹)	Amount (₹)	Assets	Amount (₹)	Amount (₹)
Capital Account	1,97,000		Furniture & Fixtures	90,000	
Add: Net Profit	76,900		Less: Depreciation	9,000	
	2,73,900				81,000
Less: Drawings (36,000+12,000)	48,000		Office Equipment	60,000	
		2,25,900	Less: Depreciation	6,000	
Bank Overdraft		60,000			54,000
Creditors	1,14,000		Motor Car	56,000	
Less: Due to Trivedi	4,000		Additions	1,20,000	
		1,10,000		1,76,000	
			Less: Sold	56,000	
				1,20,000	
			Less: Depreciation	24,000	
Amount payable to Reddy (60,000 - 6,000)		54,000			96,000
Outstanding Liabilities:			Stock		75,000
Salaries	2,500		Debtors	96,000	
Rent	6,000		Less: Due from Trivedi	4,000	
		8,500			92,000
			Cash		5,900
			Bank		53,000
			Prepaid Salary		1,500
		4,58,400			4,58,400

Workings

1. Depreciation on Motor Car

   on new motor car i.e., @ 20% on ₹ 1,20,000 = ₹ 24,000

2. Profit on Replacement of Motor Car

		₹
Cost of new Motor Car		1,20,000
Less: Exchange Value	56,000	

Cash Payment	40,000	96,000
Profit on replacement		24,000

3. Closing Stock

Maximum allowable limit (100 – 20)% = 80% of stock.

Overdraft is ₹ 60,000 which is equal to 80%.

So, closing stock $= ₹\ 60,000 \times \frac{100}{80}$

$= ₹\ 75,000.$

6. (a) The following is the Receipts & Payments Account of the Bombay Club for the year ending 31st Dec. 2014:

Dr. RECEIPTS & PAYMENTS ACCOUNT FOR THE YEAR 2014 Cr.

Receipts		₹	Payments	₹
To Balance b/f		**300**	**By Rent**	**5,200**
To Entrance Fees		**550**	**By Stationery, Expenses etc.**	**3,068**
To Subscriptions:		**17,400**	**By Wages**	**5,330**
2013	**200**	**500**	**By Billiards Table**	**3,900**
2014	**16,900**	**3,450**	**By Repairs and Renewals**	**806**
2015	**300**		**By Interest**	**1,500**
To Locker Rents			**By Balance c/f**	**2,396**
To Special Subscriptions for Governor's party				
		22,200		**22,200**

Locker rents, ₹ 60, related to 2013 and ₹ 90 is still owing: Rent ₹ 1,300 pertained to 2013 and ₹1,300 is still owing: stationery expenses etc., ₹ 312 related to 2013; still 364; subscriptions unpaid for 2014 ₹ 868; special subscriptions for Governor's Party outstanding ₹ 550.

The club owned sports materials of the value ₹ 16,000 on 1 January, 2014. This was valued at ₹13,500 on 31 December, 2014. The club took a loan of ₹ 20,000 in 2013.

Treat Entrance Fees as of revenue nature.

Required: **Prepare the Income & Expenditure Account for 2014 and Balance Sheet 31st December 2014.**

(b) From the following information calculate Credit Sales and Credit Purchases for the year ended 31.3.2015:

Balance on 1.4.2014 : Debtors— ₹ 56,000: Creditors— ₹26,000: Bills Receivable— ₹10,000; Bills Payable— ₹8,000

Transactions during the year: Total cash and cheques paid to suppliers ₹ 1,39,000 (including cash purchases ₹8,000 and Furniture purchased ₹21,000). Total Cash and cheques received from customers ₹ 1,90,000.

Bills Receivable honoured during the year	**₹ 28,600**
Bills Receivable endorsed during the year	**₹13,000**
Bills Receivable dishonoured during the year (including endorsed B/R ₹1,000)	**₹4,400**
Discount Allowed to Customers	**₹2,800**
Discount Allowed to the business	**₹290**
Goods returned by customers	**₹6,200**
(Goods returned by suppliers	**₹510**
Bad Debts written off	**₹2,700**
Bad Debts recovered	**₹420**
Allowances to customers	**₹900**
Rebate Allowed by suppliers	**₹800**
Interest charged to customers on overdue account	**₹720**
Sundry Expenses charged to Debtors	**₹340**
Carriage charged by suppliers	**₹500**
Customer's cheque dishonoured	**₹1,200**
Cheque issued but dishonoured	**₹900**
Cash paid against Bills Payable	**₹17,000**
Bills Payable dishonoured during the year	**₹6,500**
Cash refund to Debtors	**₹ 560**

Bills Receivable of ₹4,200 discounted with the bank at ₹3,900.

Balances on 31.3.2015: Debtors— ₹37,800; Creditors— ₹18,800; Bills Receivable— ₹7,800 and Bills Payable— ₹6,300

Answer:

6. (a)

Income & Expenditure Account
for the year ending 31st December, 2014

Dr. Cr.

Expenditure		₹	Income		₹
To Rent Paid	5,200		By Entrance Fees		550
Less: O/s in the beg.	1,300		By Subscriptions:		
	3,900		Received	16,900	
Add: O/s at the end	1,300	5,200	Add: O/s at end	868	17,768
To Stationery, Expenses:			By Locker Rents:		
Paid	3,068		Received	500	
Less: O/s in the beg.	312		Less: O/s in the beg.	60	
	2,756			440	
Add: O/s at the end	364	3,120	Add: O/s at the end	90	530

To Wages	5,330		
To Repairs and Renewals	806		
To Interest	1,500		
To Depreciation on sports Materials (16,000-13,500)	2,500		
To Surplus – Excess of income Over expenditure	392		
	18,848		**18,848**

Balance Sheet

as at 31.12.2014

Liabilities		₹	**Assets**		₹
Expenses unpaid:			Cash (or Bank) Balance		2,396
Rent	1,300		Sports materials		13,500
Stationery	364	1,664	Billiards Table		3,900
Special Subscriptions for			Subscriptions Outstanding		868
Governor's party:			Special Subscriptions due		550
Received	3,450		Locker Rent Outstanding		90
Add: Outstanding	550	4,000	**Deficiency:**		
Loan		20,000	On 1st January 2012	5,052	
Subscriptions Received in advance		300	*Less*: Surplus 2012	392	4,660
		25,964			**25,964**

Working Note: Calculation of Opening Capital Fund/Deficiency.

Balance Sheet as at 1.1.2014

Liabilities	₹	***Assets***	₹
Rent Outstanding	1,300	Subscription Due	200
Stationery, etc., Outstanding	312	Cash	300
Loan	20,000	Sports Materials	16,000
		Locker Rents Due	60
		Deficiency (*Balancing Figure*)	**5,052**
	21,612		**21,612**

6. (b)

Dr. **Bills Receivable Account** **Cr.**

Date	**Particulars**	**Amount**	**Date**	**Particulars**	**Amount**
1.4.14	To Balance b/f	10,000	up to		
up to			31.3.15	By Bank A/c (Honoured)	28,600
31.3.15	" - Debtors A/c (Bills Received — Balancing Amount)	47,000	"	" Creditors A/c (Endorsed)	13,000
			"	" Debtors (Dishonoured)	3,400
			"	" Bank A/c	3,900
			"	" Discount on Bill A/c	300
			31.3.15	" Balance c/f	7,800
		57,000			57,000

Dr. Bills Payable Account Cr.

Date	Particulars	Amount	Date	Particulars	Amount
up to 31.3.01	To Cash A/c	17,000	1.4.00	By Balance b/f	8,000
31.3.01	" Creditors A/c (Dishonoured)	6,500	up to 31.3.01	" Creditors A/c (Bills Accepted — Balancing Amount)	21,800
	" Balance c/f	6,300			
		29,800			29,800

Dr. Sundry Debtors Account Cr.

Date	Particulars	Amount	Date	Particulars	Amount
1.4.14	To Balance b/f	56,000	Up to 31.3.15	By Cash & Bank A/c	1,90,000
Up to 31.3.15	" Bills Receivable A/c	3,400		" Bills Receivable A/c	47,000
	" Creditors A/c (Endorsed bill dishonoured)	1,000		" Discount Allowed A/c	2,800
				" Return Inward A/c	6,200
	" Interest on Overdue A/c	720		" Bad Debts A/c	2,700
	" Bank A/c (Cheque dishonoured)	1,200		" Allowances A/c	900
	" Cash A/c (Amount refunded)	560		" Balance c/f	37,800
	" Sundry Expenses A/c	340			
	" Sales A/c (Credit Sales - Bal. fig.)	2,23,180			
		2,87,400			2,87,400

Dr. Sundry Creditors Account Cr.

Date	Particulars	Amount ₹	Date	Particulars	Amount ₹
Up to 31.3.15	To Cash & Bank A/c	1,10,000	1.4.14	By Balance b/f	26,000
"	" Bills Payable A/c	21,800	Up to 31.3.15	" Debtors A/c (Endorsed bill (dishonoured)	1,000
"	" Bills Receivable A/c	13,000		" Bank A/c (Cheque issued & dishonoured)	900
"	" Discount Received A/c	290			
"	" Returns Outward A/c	510			
"	" Rebate Received	800		" Bills Payable A/c (dishonoured)	6,500
31.3.15	" Balance c/f	18,800		- Carriage A/c	500
				" Purchases (Credit Purchases — Bal. fig.)	1,30,300
		1,65,200			1,65,200

7. (a) Mr. X does not maintain regular books but keeps Memoranda for his transactions. He furnishes the following information from the memoranda for the year ended 31.3.15: (i) Total collections from Debtors (in Cash) — ₹ 15,000; (ii) Cash Sales (as gathered from sales Invoice) — ₹ 9,600.

(iii) The abstract of the Bank for the year ended 31.3.15 is as below:

	₹		₹
Cash Deposits out of collections	23,955	Overdraft as on 1.4.14	2,400
		Interest and Bank Charges	45
		Personal Drawings	1,200
		Salaries to Staff	5,100
		General Expenses	4,755
		Payment to Creditors	9,000
		Balance on 31.3.15	1,455
	23,955		23,955

(iv) Other balances as on 1.4.2014 ar as : Stock — ₹ 5,400; Debtors — ₹ 13,200; Furniture— ₹ 600; Buildings — ₹ 9,000; Creditors — ₹ 4,800; Cash in hand — ₹ 50.

(v) He purchased one old machine for ₹ 600 on 1.1.15

(vi) Besides the cash balance with the cashier, the following are the other balances on 31.3.15:

Stock— ₹ 6,120; Debtors— ₹ 18,000; Creditors— ₹ 3,300

Prepare the Profit & Loss Account for the year ended 31.3.15 and the Balance Sheet as on that date after providing for depreciation @10% p.a. on all fixed assets.

Point to be noted:

The following figures are to be found out: (a) Opening Capital on 1.4.14; (b) Credit Purchasing during 2014-15 (c) Credit Sales during 2014-15; (d) Cash in hand on 31.3.15.

(b) On April 1, 2013 the Provision for Doubtful Debts Account of PPL Ltd. showed a balance of ₹ 80,000 and the Debtors amounted to ₹18,00,000. Out of these, during the year ended March 31, 2014, Debtors amounting in all to ₹12,25,000 paid their dues in full, but the following debts provide bad or doubtful:

Amir (₹ 30,000)	bad to the full extent
Abir (₹ 60,000)	insolvent, estate expected to pay 50 paise in the rupee and
Asif (₹ 15,000)	paid $33\frac{1}{3}\%$ in full settlement

The remaining debts were considered somewhat doubtful on March 31. The following further debts became due during 2013-2014 but were outstanding on March 31, 2013:

Dolon (₹ 40,000)	expected to prove wholly bad
Era (₹ 35,000)	expected to prove 8% bad

Fullara (₹ 3,00,000)	**expected to prove bad to some extent**
Gungun (₹ 5,00,000)	**expected to provie 5% bad**
Harshbardhan (₹ 4,00,000)	**expected to prove wholly good**

It was decided to write off actual bad debts to create provision of 5% on debts of unknown and doubtful nature.

Show the Provision for Doubtful Debts Accounting for the year 2012-2013.

(c)The Income & Expenditure Account of Jayashree Sangha Club for the year ended 31.12.2014 is given below:

Expenditure		Amount (₹)	Income		Amount (₹)
To	Salaries	20,500	By	Subscription	52,000
,,	Newspaper	1,500	,,	Sale of Newspaper	2,500
,,	Audit Fees	2,500	,,	Admission Fees	12,000
,,	General Expenses	22,000	,,	Donation	15,000
,,	Printing & Stationery	7,500	,,	Misc. Income	500
,,	Travelling Expenses	2,000			
,,	Rent	3,500			
,,	Depreciation on Furniture	2,500			
,,	Surplus	20,000			
		82,000			82,000

The following is the Balance Sheet of the Club as on 31.12.13

Liabilities	Amount (₹)	Assets	Amount (₹)
Outstanding salary	2,000	Furniture	15,000
Subscription received in advance	2,500	Sports equipment	20,000
Accumulated Fund	45,500	Accrued Subscription	5,000
		Cash at Bank	10,000
	50,000		50,000

Prepare Receipts & Payments Account for the year ended 31.12.2014 taking into account the following adjustments:
Subscription received in advance ₹ 1,500
Salary due for ₹ 1,500 but not paid for the year
60% of the admission fee to be capitalized
Subscription due for 2014 but not received ₹ 3,000

Answer:

7. (a)

Dr. **Trading and Profit and Loss Account for the year ended 31.3.15** ***Cr.***

Particulars	Amount ₹	Amount ₹	Particulars	Amount ₹	Amount ₹
To Opening Stock		5,400	By Sales: Cash	9,600	
" Purchases		7,500	Credit	19,800	29,400
" Gross Profit c/d		22,620	" Clsoing Stock		6,120

		35,520			35,520
To Interest & Bank Charges		45	By Gross Profit b/d		22,620
" Salaries to Staff		5,100			
" General Expenses		4,755			
" Depreciation on:					
Furniture [10% of 600]					
Buildings [10% of 9000]	60				
Machinery	900				
[10% of 600 for 3 months]	15	975			
" **Net Profit** [transferred to capital]		11,745			
		22,620			22,620

Balance Sheet as on 31.3.2015

Liabilities	Amount ₹	Amount ₹	Assets	Amount ₹	Amount ₹
Creditors		3,300	Cash in hand		95
Capital:			Cash at Bank		1,455
Opening Balance	21,050		Sundry Debtors		18,000
Add: Net Profit	11,745		Stock		6,120
	32,795		Furniture	600	
Less: Drawings	1,200	31,595	Less: Depreciation	60	540
			Machinery	600	
			Less: Depreciation	15	585
			Buildings	9,000	
			Less: Depreciation	900	8,100
		34,895			**34,895**

Workings:

1. **Balance Sheet as on 1.4.2014**

Liabilities	₹	Assets	₹
Bank Overdraft	2,400	Cash	50
Creditors	4,800	Debtors	13,200
Capital (Balancing Figure)	21,050	Stock	5,400
[Excess of Assets over Liabilities]		Furniture	600
		Buildings	9,000
	28,250		28,250

2.

Dr. Creditors Account Cr.

Particulars	₹	Particulars	₹
To Bank A/c	9,000	By Balance b/f	4,800
" Balance c/f	3,300	" Purchases A/c (Balancing Amount)	7,500
	12,300		12,300

Dr. Debtors Account Cr.

Particulars	₹	Particulars	₹
To Balance b/f	13,200	By Cash A/c (Collections)	15,000
" Sales A/c (Balancing Amount)	19,800	" Balance c/f	18,000
	33,000		33,000

Dr. Cash Account Cr.

Particulars	₹	Particulars	₹
To Bank b/f	50	By Bank A/c (deposits out of collections)	23,955
" Debtors A/c	15,000	" Machinery A/c	600
" Sales (Cash Sales)	9,600	" Balance c/f	95
	24,650		24,650

7. (b) Books of PPL Ltd.

Provision for Doubtful Debts Account

Dr. Cr.

Date	Particulars	Amount	Date	Particulars	Amount
Up to			01.04.12	By Balance b/d	80,000
31.3.13	To Bad Debts A/c	40,000	31.03.13	₹₹ Profit & Loss A/c (Bal. amt.)	96,300
31.3.13	₹₹ Balance c/d	1,36,300			
		1,76,300			1,76,300
			01.04.13	By Balance b/d	1,36,300

Working Notes:

Actual Bad Debts

	₹
Amir's Dues	30,000
Dues from Asif $\left[\frac{2}{3} \text{ of } 15{,}000\right]$	10,000
	40,000

Debts of Unknown Nature

		₹
	Opening Balance of Debtors	18,00,000
Less :	Paid in full	12,25,000
		5,75,000
Less :	Total claims from Amir, Abir and Asif [30,000 + 60,000 + 15,000]	1,05,000
		4,70,000
Add:	Dues from Fullara(as expected to prove bad, but extent not known)	3,00,000

		7,70,000

Closing Provision

	₹
(a) Specific	
Abir [50% of ₹ 60,000]	30,000
Dolon [100% of ₹ 40,000]	40,000
Era [8% of ₹ 35,000]	2,800
Gungun [5% of ₹ 5,00,000]	25,000
	97,800
(b) General [5% of ₹ 7,70,000]	38,500
	1,36,300

7. (c)

Jayashree Sangha Club

Receipt and Payment Account for the year ended 31.12.14

Receipts	Amount (₹)	Payments	Amount (₹)
To Balance b/d	10,000	By Salary a/c(w/n-2)	21,000
To Admission Fees (₹ 12,000/40%)	30,000	By General Expenses	22,000
		By Audit Fees	2,500
To Sale of News Paper	2,500	By Printing & Stationery	7,500
To Donation	15,000	By Rent	3,500
To Misc. Income	500	By Travelling Exp	2,000
To Subscription (w/n-1)	53,000	By News Paper	1,500
		By Balance c/d at 31.12.14	51,000
	1,11,000		1,11,000

Balance Sheet as at 31.12.14

Liabilities		Amount (₹)	Assets		Amount (₹)
Accumulated Fund	45,500		Sports Equipment		20,000
Add Surplus	20,000	65,500	Furniture	15,000	
Admission Fees		18,000	Less: Depreciation	2,500	12,500
Subscription received in advance		1,500	Accrued Subscription		3,000
			Cash at Bank		51,000
Outstanding Salaries		1,500			
		86,500			86,500

Working Notes :-

w/n-1-

Dr. Subscription Account Cr.

Particulars	Amount (₹)	Particulars	Amount (₹)
To Opening Outstanding A/c	5,000	By opening received in advance A/c	2,500
To Income & Expenditure A/c	52,000	By Receipts & Payments A/c (Balancing Fig.)	53,000
To Closing received in advance	1,500	By Closing Outstanding A/c	3,000

w/n-2- Salary paid in 2014

Salary as per Income & Expenditure A/c	20,500
Add: paid for 2013	2,000
Less: Outstanding for 2014	1,500
	21,000

8. (a) X, Y and Z are partners in a firm. The firm has agreed to give to partners interest @ 15 % per annum on their capital contributions. The amount of interest on Y's capital is more than the interest on Z's capital by ₹10,500 and X' s capital is $1\frac{2}{3}$ times of Z' s capital. If the firm's total capital is ₹ 11,70,000, then calculate the amount of capital and interest thereon of each partner and pass necessary journal entry to record the interest on capital in the books of the firm.

(b) Amal and Bikash entered into partnership on 01.01.2010 agreeing to share profits and losses in the ratio of 2 :1. On that date, they introduced capital as under: Amal ₹ 90,000 and Bikash ₹ 30,000. They effected a policy of insurance for ₹20,000 of their joint lives. The net profits before charging interests on capital as at the beginning of each year at 6% per annum and before considering interest on drawings averaged at 4% per annum were as follows:

Year	Net Profits(₹)	Amal's Drawings (₹)	Bikash's Drawings (₹)
2010	34,800	10,000	5,000
2011	37,600	12,000	7,000
2012	38,000	14,000	7,500

The annual insurance premium ₹3,000 was being charged to profit and Loss Account as a business expense.

Amal died on 31.03.2013. According to the terms of the Partnership Deed, the deceased partner's executors became entitled to receive his share of capital, as it stood on 31.12.2012 plus his share of profits for the three months calculated upon the previous year's rate of profit and share of goodwill which was calculated on 2/3rds of the previous three years profits after adjusting for interest on capital and drawings, but without deducting the premium paid on Joint Life Policy.

Show the amount payable to the executors of Amal.

Answer :

8. (a) Let the Z's capital is 'a', then X's capital will be $\frac{5}{3}a$

Y's capital is more than Z's capital by $\frac{10,500}{15\%}$ = ₹70,000
Hence Y's capital will be = a + 70,000

So, the total capital = $\frac{5}{3}a$ + (a + 70,000) + a = 11,70,000

Or $\frac{11}{3}a$ + 70,000 = 11,70,000
Or a = 3,00,000

Thus, X's Capital = 3,00,000 x $\frac{5}{3}$ = ₹5,00,000 and
Interest on it = 5,00,000 x 15% = ₹75,000
Y's capital = 3,00,000 + 70,000 = ₹3,70,000 and Interest =(₹3,70,000 × 15%)= ₹55,500
Z's capital = 3,00,000 and Interest (₹3,00,000 × 15%)= = ₹45,000

Journal Entry

Dr. Cr.

Date	Particulars	L.F.	Amount ₹	Amount ₹
	Interest on capital A/c Dr. To X's capital A/c To Y's capital A/c To Z's capital A/c (being interest on capital transferred to partners' capital Account)		1,75,500	 75,000 55,500 45,000

8. (b) WORKING NOTES:

1. **Adjustment of Profit**

Particulars	2010	2011	2012
Profit before adjusting Interest	34,800	37,600	38,000
Add: Interest on Drawings @ 4% (4% of total drawings of A and B for every year)	600	760	860
	35,400	38,360	38,860
Less: Interest on Capital (WN- 2)	7,200	8,388	9,504
Profit after Adjustment	28,200	29,972	29,356
A's Share – 2/3	18,800	19,981	19,571
B's Share – 1/3	9,400	9,991	9,785

2. **Adjustment of Capital**

Particulars	Total	A	B
Capital as on 01.01.2010	1,20,000	90,000	30,000
Add: Interest on capital @ 6% p.a.	7,200	5,400	1,800
Add: Share of Profit (34,800- 7,200 +600)	28,200	18,800	9,400
Less: Drawings	15,000	10,000	5,000
Less: Interest on Drawings @ 4%	600	400	200

Capital as on 01.01.2011	1,39,800	1,03,800	36,000
Add: Interest on Capital	8,388	6,228	2,160
Add: Share of Profit (WN. 1)	29,972	19,981	9,991
Less: Drawings	19,000	12,000	7,000
Less: Interest on Drawings	760	480	280
Capital as on 01.01.2012	1,58,400	1,17,529	40 ,871
Add: Interest on Capital @ 6%	9,504	7,052	2,452
Add: share of Profit (WN.1)	29,356	19,571	9,785
Less: Drawings	21,500	14,000	7,500
Less: Interest on Drawings @ 4%	860	560	300
Capital as on 01.01.2013	1,74,900	1,29,592	45,308

3. Valuation of Goodwill

Total Profits after adjustments for interest (WN. 1)

Year	₹	Total (₹)
2010	28,200	
2011	29,972	
2012	29,356	
		87,528
Add back: Insurance Premium for 3 years (3,000 × 3)		9,000
		96,528

Average annual profit before charging Insurance Premium = 96,528/3
= ₹32,176

Goodwill = 32,176 × 2 = ₹64,352

Thus Amal's Share = 2/3 × 64,352 = ₹42,901

4. Profit between 01.01.2013 and 31.03.2013

Profit for 2012 after Interest = ₹29,356

Average Profits for 3 months = ₹29,356 × 3/12 = ₹7,339

Amal's Share = 2/3 × 7,339 = ₹4,893.

Working note 5:

Dr. Joint Life Policy Account Cr.

Date	Particulars	Amount (₹)	Date	Particulars	Amount (₹)
01.01.2010	To, Bank A/c	3,000	31.12.10	By, Profit and Loss A/c	3,000
01.01.2011	To, Bank A/c	3,000	31.12.11	By, Profit and Loss A/c	3,000
01.01.2012	To, Bank A/c	3,000	31.12.12	By, Profit and Loss A/c	3,000
01.01.2013 31.12.2013	To, Bank A/c To Partner's capital A/c - Amal 11,333 - Bikash 5,667	3,000 17,000	31.03.13	By, Bank A/c –Joint life policy amount	20,000
		20,000			20,000

Dr. Executor of Amal's Account Cr.

Date	Particulars	Amount ₹	Date	Particulars	Amount ₹

31.3.13	To Balance c/d	1,90,663	31.3.13	By A's Capital A/c By P & L Suspense A/c Interest on Capital [1,29,592 × 6% × 3/12] By Share of Profits By Goodwill By Joint Life Policy A/c	1,29,592 1,944 4,893 42,901 11,333
		1,90,663			1,90,663

9. (a) The firm of M/s LMS was dissolved on 31.3.2015, at which date its Balance Sheet stood as follows:

Liabilities	₹	Assets	₹
Creditors	**2,00,000**	**Fixed Assets**	**45,00,000**
Bank Loan	**5,00,000**	**Cash and Bank**	**2,00,000**
L's Loan	**10,00,000**		
Capitals :			
L	**15,00,000**		
M	**10,00,000**		
S	**5,00,000**		
	47,00,000		**47,00,000**

Partners share profits equally. A firm of Chartered Accountans is retained to realise the assets and distributed the cash after discharge of liabilities. Their fees which are to include all expenses is fixed at ₹ 1,00,000. No loss is expected on realization since fixed assets include valuable land and building.

Realizations are : 1st ₹ 5,00,000, 2nd ₹ 15,00,000, 3rd ₹ 15,00,000, 4th ₹ 30,00,000, 5th ₹ 30,00,000. The Chartered Accountant firm decided to pay off the partners in 'Higher Relative Capital Method'. You are required to prepare a statement showing distribution of cash with necessary workings.

(b)X and Y were partners with ₹20,000 as capital contributed equally. They shared profits as follows: Salary to X ₹1,000 p.a.; Salary to Y ₹500 p.a.; Remaining Profits as 1:1

Due to certain circumstances, it became necessary to make the following changes in the shares of X and Y : Salary to X ₹500 p.a.; Salary to Y ₹1,000 p.a.; Remaining Profits as 1:1

The above new change was applicable subject to Z being introduced on 1st January, 2014 as a partner (without capital) at a salary of ₹1,500 and one-seventh share in the profit and loss of the firm (after charging interest on capital and salaries) all of which was to be charged to X with the exception of ₹1,000, the amount of salary Z had formerly received as manager of the firm. X and Y are entitled to interest on capital at 5% p.a. The profit for the year ended 31st December, 2014 before charging interest on capital or partners' salary was ₹2,740.

Prepare the Profit & Loss Appropriation Account.

Answer:

9. (a)

Piecemeal Distribution Statement under Higher Relative Capital Method: (₹)

Particulars	**Amount Available**	**Creditors**	**Bank Loan**	**L's Loan**	**L**	**M**	**S**
Balance due **1st Installment** (including Cash &		2,00,000	5,00,000	10,00,000	15,00,000	10,00,000	5,00,000

Bal.)	5,00,000	-	-	-			
Less: Liquidator's Exps & Fees	(1,00,000)	-	-	-			
Balance	4,00,000	2,00,000	5,00,000	10,00,000	15,00,000	10,00,000	5,00,000
Less: Crs & Bank Loan paid in ratio of balance o/s, i.e. 2: 5	(4,00,000)	(1,14,286)	(2,85,714)	-	-	-	-
Balance	-	85,714	214,286	10,00,000	15,00,000	10,00,000	5,00,000
2nd Installment	15,00,000						
Less: Creditors & BK Loan fully paid	(3,00,000)	(85,714)	(2,14,286)	-	-	-	-
Balance	12,00,000	NIL	NIL	10,00,000	15,00,000	10,00,000	5,00,000
Less: Repayment of L's Loan	(10,00,000)	-	-	(10,00,000)			
Balance	2,00,000	NIL	NIL	NIL	15,00,000	10,00,000	5,00,000
Less: Paid to L towards Higher Relative Capital	(2,00,000)	-	-	-	(2,00,000)	-	-
Balance	-	-	-	-	13,00,000	10,00,000	5,00,000
3rd Instalment	15,00,000						
Less: Paid to L towards Higher Relative Capital	(3,00,000)	-	-	-	(3,00,000)	-	-
Balance	12,00,000	-	-	-	10,00,000	10,00,000	5,00,000
Less: Paid to L and M towards Excess Capital	(10,00,000)	-	-	-	(5,00,000)	(5,00,000)	-
Balance	2,00,000	-	-	-	5,00,000	5,00,000	5,00,000
Less: Payment to all Partners equally	(2,00,000)				(66,667)	(66,667)	(66,666)
Balance Due	-	-	-	-	4,33,333	4,33,333	4,33,334
4th Instalment	30,00,000						
Less: Payment to all Partners equally	(30,00,000)				(10,00,000)	(10,00,000)	(10,00,000)
Balance Due	30,00,000				(5,66,667)	(5,66,667)	(5,66,666)
5th Instalment							
Less: Payment to all Partners equally	(30,00,000)				(10,00,000)	(10,00,000)	(10,00,000)
Excess being Realization Profit credited to all Partners					(15,66,667)	(15,66,667)	(15,66,666)

Working Notes:

(i) Statement showing the computation of Highest Relative Capital

	Particulars	L	M	S
A	Actual Capitals	15,00,000	10,00,000	5,00,000
B	Profit Sharing Ratio	1	1	1
C	Actual Capital × Profit Sharing Ratio	15,00,000	10,00,000	5,00,000
D	Proportionate Capital taking S's Capital as Base Capital	5,00,000	5,00,000	5,00,000
E	Surplus Capital (A - D)	10,00,000	5,00,000	—
F	Profit Sharing Ratio	1	1	—
G	Surplus Capital × Profit Sharing Ratio	10,00,000	5,00,000	—
H	Revised Proportional Capital taking	5,00,000	5,00,000	—

	M's Capital as Base Capital			
I	Revised Surplus Capital (E - G)	5,00,000	—	—

(ii) Scheme of Distribution : First ₹ 5,00,000 will be paid to L, next ₹ 10,00,000 will be distributed between L and M in their profit sharing (i.e. 1 : 1) and the balance will be distributed among L, M and S in their profit sharing ratio (i.e. 1 : 1 : 1).

(iii) It has been assumed that the amounts of realisation given in the question pertain to realisation of fixed assets.

9. (b)

Dr. **Profit & Loss Appropriation Account for the year ended 31.12.2014** **Cr.**

Particulars	Amount ₹	Amount ₹	Particulars	Amount ₹	Amount ₹
To Interest Capitals:			By Net Profit b/d		2,740
X — [5% of 10,000]	500		" Net Loss c/d		1,260
Y — [5% of 10,000]	500	1,000			
" Partners' Salaries:					
X	500				
Y	1,000				
Z	1,500	3,000			
		4,000			4,000
To Net Loss b/d		1,260	By Z's Capital A/c $\left[\frac{1}{7}\text{th of ₹}1,260\right]$		180
			By Balance c/d		1,080
		1,260			1,260
To Balance b/d		1,080	By X's Capital A/c [Note 1]		320
			" Capital Accounts: [Loss]		
			X	380	
			Y	380	760
		1,080			1,080

Working Notes:

1. **Z's dues as a partner**

	₹	₹
Salary	1,520	
Less: Share of Loss	180	1,320
Z's dues as manager : Salary		1,000
Excess amount due to Z and charged from X		320

2. **Final Shares of Losses**

	₹
X [₹ 380 + 320 (payable for Z)]	700
Y	380
Z	180

	1,260

10. A Ltd. obtain from B.S. Ltd. a lease of some coal-bearing land, the terms being a royalty of ₹ 15 per ton of coal raised subject to a minimum rent of ₹ 75,000 p.a. with a right of recoupment of short-working over the first four years of the lease. From the following details, show (i) Short-working Account, (ii) Royalty Account and (iii) B.S. Ltd. Account in the books of A. Ltd.

Year	Sales (Tons) ₹	Closing Stock (Tons) ₹
2010	**2,000**	**300**
2011	**3,500**	**400**
2012	**4,800**	**600**
2013	**5,600**	**500**
2014	**8,000**	**800**

Answer:

10. Workings:

[Coal raised i.e., Production = Sales + Closing Stock – Opening Stock.]

Year	Sales	+	Closing Stock	-	Opening Stock	=	Net Production
2010	2,000	+	300	-	Nil	=	2,300
2011	3,500	+	400	-	300	=	3,600
2012	4,800	+	600	-	400	=	5,000
2013	5,600	+	500	-	600	=	5,500
2014	8,000	+	800	-	500	=	8,300

In the books of A. Ltd.
Memorandum Royalty Statement

Year	Quantity	Rate ₹	Royalty ₹	Minimum Rent ₹	Short working ₹	Recoupment ₹	Short working carried forward ₹	Short working Transferred to P&L A/c or lapsed ₹	Payment to Landlord ₹
2010	2,300	15	34,500	75,000	40,500	---	40,500	---	75,000
2011	3,600	15	54,000	75,000	21,000	---	61,500	---	75,000
2012	5,000	15	75,000	75,000	---	---	61,500	---	75,000
2013	5,500	15	82,500	75,000	---	7,500	---	54,000	75,000
2014	8,300	15	1,24,500	75,000	---	---	---	---	1,24,500

Dr. B. S. Ltd. (Landlord) Account Cr.

Date	Particulars	Amount ₹	Date	Particulars	Amount ₹
2010	To Bank A/c	75,000	2010	By Royalty A/c	34,500
				" Short-working A/c	40,500
		75,000			75,000

2011	To Bank A/c	75,000	2011	By Royalty A/c " Short-working A/c	54,000 21,000
		75,000			75,000
2012	To Bank A/c	75,000	2012	By Royalty A/c	75,000
		75,000			75,000
2013	To Bank A/c To Short-Working A/c	75,000 7,500	2013	By Royalty A/c	82,500
		82,500			82,500
2014	To Bank A/c	1,24,500	2014	By Royalty A/c	1,24,500
		1,24,500			1,24,500

Dr. Short-Working Account Cr.

Date	Particulars	Amount ₹	Date	Particulars	Amount ₹
2010	To B. S. Ltd. A/c (Landlord)	40,500	2010	By Balance c/d	40,500
		40,500			40,500
2011	To Balance b/d " B. S. Ltd. A/c (Landlord)	40,500 21,000	2011	By Balance c/d	61,500
		61,500			61,500
2012	To Balance b/d	61,500	2012	By Balance c/d	61,500
		61,500			61,500
2013	To Balance b/d	61,500	2013	By B. S Ltd. (Landlord) A/c " Profit and Loss A/c	7,500 54,000
		61,500			61,500

Dr. Royalty Account Cr.

Date	Particulars	Amount ₹	Date	Particulars	Amount ₹
2010	To B. S. Ltd. A/c	34,500	2010	By Profit & Loss A/c	34,500
2011	To B. S. Ltd. A/c	54,000	2011	By Profit & Loss A/c	54,000
2012	To B. S. Ltd. A/c	75,000	2012	By Profit & Loss A/c	75,000
2013	To B. S. Ltd. A/c	82,500	2013	By Profit & Loss A/c	82,500
2014	To B. S. Ltd. A/c	1,24,500	2014	By Profit & Loss A/c	1,24,500

11. (a) On 1.1.2012 Dola Ltd. purchased a Taxi from Sayan Ltd., on hire purchase system. A Down payment of ₹ 15,000 and 3 equal instalments together with interest @ 5% per annum on the outstanding balance of capital sum are to be made. The amount of last instalment payment was ₹ 15,750. Depreciation has to be provided @ 10% under reducing balance method.

At the end of 3rd year the taxi was sold for ₹ 25,000 in cash.

Prepare Taxi Account and Vendor Account in the books of Dola Ltd.

(b) S Ltd has a hire purchase department. Goods are sold on hire purchase at cost plus 50%. The following information is provided for the year ending on 31st March 2014.

	01.04.2013	31.03.2014
Stock out with Hire Purchase Customers (₹)	9,000	?
Stock at shop (₹)	18,000	20,000
Instalment Due (Customers still Paying) (₹)	5,000	9,000

Prepare Hire Purchase Trading Account — If Cash received from hire purchasers amounted to ₹ 60,000 and Goods purchased during the year amounted to ₹ 60,000.

Answer:

11. (a)

In the Books of Dola Ltd.

Dr. Taxi Account Cr.

Date	Particulars	Amount (₹)	Date	Particulars	Amount (₹)
1-1-12	To Sayan Ltd A/c	60,000	31-12-12	By Depreciation A/c By Balance c/d	6,000 54,000
		60,000			60,000
1-1-13	To Balance b/d	54,000	31-12-13	By Depreciation A/c By Balance c/d	5,400 48,600
		54,000			54,000
1-1-14	To Balance b/d	48,600	31-12-14	By Depreciation A/c By Bank A/c By P & L A/c	4,860 25,000 18,740
		48,600			48,600

Dr. Sayan Ltd. Account Cr.

Date	Particulars	Amount (₹)	Date	Particulars	Amount (₹)
1-1-12 31-12-12	To Bank A/c To Bank A/c To Balance c/d	15,000 17,250 30,000	1-1-12 31-12-12	By Taxi A/c By Interest c/d (@ 5% on ₹45,000)	60,000 2,250
		62,250			62,250
31-12-13	To Bank A/c To Balance b/d	16,500 15,000	1-1-13 31-12-13	By Balance c/d By Interest A/c	30,000 1,500

		31,500		(@5% on ₹30,000)	31,500
31-12-14	To Bank A/c	15,750	1-1-14 31-12-14	By Balance b/d By Interest A/c (@ 5% on ₹15,000)	15,000 750
		15,750			15,750

Working Note:
Let Principal amount be ₹100, Interest is ₹ 5 then amount of Installment including interest is ₹105.
Hence Cash Price of each Installment = (₹ 15,750 x 100) /105 = ₹ 15,000
Cash Price of taxi = ₹ 15,000 + (15,000 x 3) = ₹ 60,000

11. (b)

Dr. Hire Purchase Trading Account Cr.

Particulars	₹	Particulars	₹
To Opening Balances: Hire Purchase Stock Hire Purchase Debtors	 9,000 5,000	By Hire Purchase Stock Reserve [₹ 9,000 × 50/150]	 3,000
To Goods Sold on Hire Purchase	87,000	By Bank A/c	60,000
To Hire Purchase Stock Reserve A/c [₹ 32,000 × 50/150]	10,667	By Goods Sold on Hire Purchase A/c [₹ 87,000 × 50/150]	29,000
To Profit t/f to General P & L A/c	 21,333	By Closing Balances : Hire Purchase Stock Hire Purchase Debtors	32,000 9,000
	1,33,000		1,33,000

Working Notes:

Dr. (i) Shop Stock Account Cr.

Particulars	₹	Particulars	₹
To Balance b/d	18,000	By Goods Sold on Hire Purchase A/c	58,000
To Purchases	60,000	By Balance c/d	20,000
	78,000		78,000

Dr. (ii) Goods Sold on Hire Purchase Account Cr.

Particulars	₹	Particulars	₹
To Shop Stock A/c	58,000	By Hire Purchase Trading A/c	87,000
To Hire Purchase Trading A/c	29,000		
	87,000		87,000

Dr. (iii) Memorandum Hire Purchase Stock Account Cr.

Particulars	₹	Particulars	₹
To, balance b/d	9,000	By, Hire Purchase Debtors A/c	64,000
To, Goods Sold on Hire Purchase A/c	87,000	By, Balance c/d (bal.fig)	32,000

	96,000		96,000

Dr. (iv) Memorandum Hire Purchase Debtors Account Cr.

Particulars	₹	Particulars	₹
To, Balance b/d	5,000	By, Bank A/c	60,000
To, Hire Purchase Stock A/c(bal.fig)	64,000	By, Balance c/d	9,000
	69,000		69,000

12. (a) MM Ltd. has three department P,Q and R. From the particulars given below compute:

A. The values of stock as on 31st March,2013 and
B. The departmental results

(i)

	P (₹)	Q (₹)	R (₹)
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%**	**33⅓%**

(ii) 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:

	P (₹)	Q (₹)	R (₹)
Sales at normal price	**10,000**	**3,000**	**1,000**
Sales at actual price	**7,500**	**2,400**	**600**

(b) Devas & Co., (Delhi) operates a branch at Jaipur to which goods are invoiced at wholesale price which is cost plus 25%. The branch sell the goods at the retail price which is wholesale price plus 20%.

The following information provided for the year ended 31.03.2015:

	₹
Stock at the branch on 01.04.2014	**1,65,000**
Goods invoiced to the branch during the year	**17,82,000**
Expenses of the branch for the year	**1,10,000**
Gross profit made by the branch	**3,30,000**
Stock at the branch on 31.03.2015	**1,98,000**

Some goods were destroyed by the fire during the year.

You are required to prepare, Branch Stock Account, Branch Profit & Loss Account and Branch Stock Reserve Account in the books of Head Office for the year ended 31st March, 2015.

(c) Pass the Journal entries to rectify or adjust the following in the books of Kolkata Branch for the year ending 31st March, 2015:

(i) Kolkata Branch paid ₹50,000 as salary to a visiting Head Office Official. The branch has debited the amount to salaries account.

(ii) Goods costing ₹30,000 purchased by Kolkata Branch, but payment made by Head Office. The Head Office has wrongly debited this amount to its own purchase account.

(iii) Depreciation on branch assets, of which accounts are maintained by the Head Office, not provided for ₹ 11,000.

(iv) Goods worth ₹30,000 were returned by a customer of Kolkata Branch to Head Office.

Answer:

12. (a) A. Calculation of Departmental Results (Actual Gross Profit)

Particulars	P (₹)	Q (₹)	R (₹)
Actual Sales	1,72,500	1,59,400	74,600
Add back: Discount (Nominal Price – Actual Price)	2,500	600	400
Normal Sales	1,75,000	1,60,000	75,000
Gross Profit % on normal Sales	20%	25%	33.33%
Normal Gross Profit	35,000	40,000	25,000
Less: Discount	(2,500)	(600)	(400)
Actual Gross Profit	32,500	39,400	24,600

B. Computation of Value of Stock as on 31st March,2013

Particulars	P (₹)	Q (₹)	R (₹)
Opening Stock	24,000	36,000	12,000
Add: Purchases	1,46,000	1,24,000	48,000
	1,70,000	1,60,000	60,000
Add: Actual Gross Profit	32,500	39,400	24,600
	2,02,500	1,99,400	84,600
Less: Actual Sales	(1,72,500)	(1,59,400)	(74,600)
Closing Stock (Balancing Figure)	30,000	40,000	10,000

Working Notes:

Computation of Discount on Sales

Particulars	P (₹)	Q (₹)	R (₹)
Sales at normal price	10,000	3,000	1,000
Less: Sales at actual price	(7,500)	(2,400)	(600)
	2,500	600	400

12. (b)

Books of Devas & Co. (H.O.)

Branch Stock Account

Particulars	₹	Particulars	₹
To balance b/d	1,65,000	By Sales (Working Note 1)	19,80,000
To Goods sent to Branch	17,82,000	By Goods lost by fire	99,000
To Gross Profit c/d	3,30,000	By balance c/d	1,98,000
	22,77,000		22,77,000

Branch Profit & Loss Account

Particulars	₹	Particulars	₹
To Expenses	1,10,000	By Gross Profit b/d	3,30,000
To Goods lost by fire (W.N. 2)	99,000		
To Profit transferred	1,21,000		
	3,30,000		3,30,000

Branch Stock Reserve Account

Particulars	₹	Particulars	₹
To H.O. P & L A/c – Transfer	33,000	By Balance b/d	33,000
To Balance c/d (Stock Res. Required)	39,600	By H.O. P & L A/c (W.N. 3)	39,600
	72,600		72,600

Working Notes:

1. Wholesale Price 100 + 25 = 125
Retail price 125 + 20% = 150
Gross Profit at the Branch
Wholesale Price – Retail Price (150 – 125) =25
Retail Sales Value = 3,30,000 x (150/25) = ₹19,80,000

2. Goods Lost by fire
Opening Stock + Goods Sent + Gross profit - Sales – Closing Stock
1,65,000 + 17,82,000 + 3,30,000 – 19,80,000 – 1,98,000 = 99,000.

3. Stock Reserve
Opening Stock = 1,65,000 x 25/125 = 33,000
Closing Stock = 1,98,000 x 25/125 = 39,600

12. (c) **Books of Kolkata Branch**

Date	Particulars	L.F.	Dr. Amount ₹	Cr. Amount ₹
(i)	Head office A/c Dr. To Salaries A/c (being salaries paid to Head office official, salary account debited by branch, now rectified)		50,000	50,000
(ii)	Purchase A/c Dr. To Head Office A/c (being the goods purchased by branch but payment made by H.O. , the H.O. wrongly debited this amount , now rectified)		30,000	30,000
(iii)	Profit and Loss A/c Dr. To Head Office A/c (being depreciation on branch fixed assets are provided)		11,000	11,000
(iv)	Head Office A/c Dr. To Debtor's A/c (being goods returned by customer of Branch to H.O., now rectified)		30,000	30,000

13. From the following particulars for the year ended 31st March, 2014 extracted from the books of Best Ltd., prepare Sales Ledger Adjustment Account in the General Ledger :

		₹
Sales Ledger Balances : 1st April, 2013	**Dr.**	**12,500**
Sales Ledger Balances : 1st April, 2013	**Cr.**	**300**
Sales during the year (including cash sales ₹ 2000)		**60,400**
Cash Received from Customers		**40,100**
Return by Customers		**5,750**
Discount Allowed		**2,600**
Bad Debts written off		**5,680**
Provision for Bad Debts		**5,950**
Allowances to Customers		**740**
Bills Receivable from Customers		**3,400**
Bills Dishonoured		**700**
Transfer from Sales Ledger to Purchase Ledger		**2,500**
Payments to clear credit balances on Sales Ledger Accounts		**100**
Closing Credit Balances		**1,440**

Answer:

13.

Books Best Ltd.

In General Ledger

Dr. **Sales Ledger Adjustment Account** ***Cr.***

Date	Particulars	Amount ₹	Date	Particulars	Amount ₹
1.4.13	To Balance b/d	12,500	1.4.13	By Balance b/d	300
31.3.14	" General Ledger Adjustment A/c		31.3.14	" General Ledger Adjustment A/c	
	Sales (Credit)	58,400		Cash Received	40,100
	Payment to Debtors	100		Return Inward	5,750
	Bills Dishonoured	700		Discount Allowed	2,600
31.3.14	" Balance c/d	1,440		Bad Debts written off	5,680
				Allowances to Customers	740
				Bills Receivable	3,400
				Transfer to Purchase Ledger	2,500
			31.3.14	" Balance c/d	12,070
		73,140			73,140

Note: No entry has been made for Provision for Bad Debts as this does not affect the Debtor's Account.

14. (a) Mr. Coconut, the accountant S.S.R. Ltd., committed some errors in preparing the accounts of the concern for the year accounting year ending on 31.3.2014. You are requested to show the necessary entries assuming

(1) There is no self-balancing system and

(2) There is self-balancing system.

You may use Suspense Account, if required :

(i) Mr. X returned goods of the value of ₹ 3,600 which were entered in the sales day book and posted to the credit of his account.

(ii) Goods sold to Mr. Sen for ₹ 6,000 was correctly recorded in the sales day book but wrongly posted as ₹60 to the debit of the account of Mr. Sil.

(iii) Mr. M returned goods of the value of ₹1,260 but this was posted to the debit of his account.

(b) 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.

Answer:

14. (a)

S.S.R. Ltd.
Journal Entries

If there is no Self-Balancing System	If there is Self-Balancing System
1. Sales A/c Dr. 3,600 Sales Returns A/c Dr. 3,600 To Suspense A/c 7,200 [Goods returned and posted to Sales A/c and Sales Returns A/c not debited, now rectified]	1. (a) Same (b) General Ledger Adjustment A/c Dr. 7,200 (in Sales Ledger) To Sales Ledger Adjustment A/c 7,200 (in General Ledger)
2. Mr. Sen A/c Dr. 6,000 To Mr. Sil A/c 60 To Suspense A/c 5,940 [Sale to Mr. Sen for ₹6,000 wrongly debited to Mr. Sil A/c as ₹ 20, now rectified.]	2. Same entry in Sales Ledger.
3. Suspense A/c Dr. 2,520 To Mr. M A/c 2,520 [Goods returned by Mr. M debited to his A/c, now rectified.]	3. Same entry in Sales Ledger.

14. (b)

In Consignment Ledger
General Ledger Adjustment Account

Dr. **Cr.**

Date	Particulars	Amount (₹)	Date	Particulars	Amount (₹)
31.12.2014	To Sales	22,50,000	1.1.2014	By Consignment Stock	2,80,000
	``Consignment Stock (Closing)	65,000	31.12.2014	``Goods Sent on Consignment	13,50,000
				`` Expenses	70,000
			31.12.2014	`` Commission	2,25,000
				`` Balance c/f (Profit)	3,90,000
		23,15,000			23,15,000

Opening Sock =₹ [60,000 + 60,000 + 50,000 + 70,000 + 20,000 + 20,000]
= ₹2,80,000;

Goods sent on consignment = ₹ [2,00,000 + 3,00,000 + 4,00,000 + 2,00,000 + 1,00,000 + 1,50,000]
=₹ 13,50,000;

Expenses =₹ [10,000 + 20,000 + 10,000 + 5,000 + 10,000 + 15,000]
= ₹ 70,000;

Sales =₹ [4,00,000 + 5,00,000 + 6,00,000 + 3,00,000 + 2,00,000 + 2,50,000]
= ₹ 22,50,000;

Closing Stock = ₹ [10,000 + 15,000 + 20,000 + 20,000]
= ₹65,000.

15. (a) Discuss the term "Self Balancing System".

(b) The balance on the Sales Ledger Control Account of Quick Ltd. on Sept. 30,2012 amounted to ₹ 9,700 which did not agree with the net total of the list of Sales Ledger Balance on that date.

Errors were found and the appropriation adjustments when made balanced the books. The errors were:

(i) A Bad Debt amounting to ₹850 had been written-off in the sales ledger, but had not been posted to the Bad Debts Account, or entered in Control Account.

(ii) An item of goods sold to Amar for ₹450 had been entered once in the Day Book but posted to his account twice.

(iii) No entry had been made in the Control Account in respect of the transfer of a debit of ₹260 from Kumar's Account in the Sales Ledger to his account in the purchase ledger.

(iv) The Discount Allowed column in the Cash Book had been under cast by ₹280.

You are required to give the journal entries, where necessary, to rectify these errors, indicating whether or not any control accounts is affected, and to make necessary adjustments in the Sales Ledger Control Account bringing down the balance.

Answer:

15. (a)

Self Balancing Ledger System implies a system of ledger keeping which classifies ledgers as per nature of transaction, like, Purchase Ledger, Sales Ledger, General Ledger etc. and also makes them to balance independently.

The objective of this system is to make each of the ledgers self - balancing.

Under Self Balancing Ledger System each ledger is prepared under double entry system and a complete trial balance can also be prepared by taking up the balances of ledger accounts. Within the ledger itself principles of double entry is computed. Under this method three ledger accounts are prepared, viz, General Ledger Adjustment Account which is maintained under Debtors Ledger and Creditors Ledger and Debtors or Sales Ledger Adjustment Account and Creditors or Purchase Ledger Adjustments Accounts which are maintained under General Ledger.

15. (b)

Journal

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
2012 Sept. 30				
	Bad Debts A/c Dr. To, Sales Ledger Control A/c (Bad Debts written-off without recording in general ledger, now rectified.)		850	 850
	Amar's Account should be credited by ₹450. It will not affect Control Account.		----	 ----
	Purchase Ledger Control A/c Dr. To, Sales Ledger Control A/c (Transfer of debit of Kumar's Account to Purchase Ledger , not recorded, now rectified.)		260	 260
	Discount Allowed A/c Dr. To, Sales Ledger Control A/c (Discount allowed account undercast, now rectified.)		280	 280

In General Ledger

Sales Ledger Control Account

Dr. **Cr.**

Date	Particulars	Amount ₹	Date	Particulars	Amount ₹
2012 Sept. 30	 To Balance b/d	 9,700	2012 Sept. 30	By Bad Debts A/c By, Transferred (Purchases Ledger Control) A/c By, Discount Allowed A/c By, Balance c/d	850 260 280 8,310
		9,700			9,700
Oct. 1	To, Balance c/d	8,310			

16. (a) On 31st October, 2014, Vishal Construction Co. Ltd. undertook a contract to construct a Flyover for ₹430 crores. On 31st March, 2015, company found that its work certified is for ₹200 crores and work to be certified is for ₹70 crores. Prudent estimate of additional cost

for completion was ₹180 crores. What amount should be charged to Revenue in the final accounts for the year ended 31st March, 2015 as per provisions of Accounting Standard 7 (revised).

(b) A firm of contractors obtained a contract for construction of a bridge across river Beauty. The following details are available in the records kept for the year ended 31st March, 2015.

Particulars	₹ in lakhs
Total Contract Price	3,000
Work Certified	2,100
Work Not Certified	600
Estimated Further Cost to Completion	1,050
Progress Payment: Received	1,500
To be Received	300

The firm seeks your advice and assistance in the presentation of accounts keeping in view the requirements of AS - 7.

(c) List the items to be deducted and to be excluded while computing the Contract Cost as per AS – 7.

Answer:

16. (a)

As per AS 7 (Revised) '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 the stage of completion of the contract activity at the reporting date.

An expected loss on the construction contract should be recognised as an expense immediately in as per AS-7.

	₹ in crores
Cost incurred till 31st March 2015 (200+70)	270
Add: Prudent estimate of additional cost for completion	180
Total estimated cost of construction	450

Percentage of total contract work in progress to total cost of construction

$$= \frac{\text{Cost incurred till 31st March, 2015}}{\text{Total estimated cost}} = \frac{270}{450} \times 100 = 60\%$$

Proportion of total contract value recognized as turnover (charged to revenue) as per AS 7 (Revised) = 60% of ₹ 430 crores = ₹ 258 crores.

Note: As per AS-7, when it is probable that total contract cost will exceed total contract revenue, the expected loss should be recognised as an expense immediately. Accordingly, the difference of ₹ 20 crores (i.e. Total estimated cost of construction ₹ 450 crores - Contract price ₹ 430 crores) should be expensed in the year 2014-2015.

16. (b)

Amount to be disclosed as per Disclosure Requirements of AS – 7

	Particulars	₹ in Lakhs
A	Additions during the year	
	Cost Incurred during the year (2,100 + 600)	2,700
	Revenue recognized during the year (3,000 x 2,100)/3,750	1,680
	Total [A]	4,380
B	Deductions during the year	
	Expenses recognized during the year (Work certified)	2,100
	Expected loss [(₹2,100 lakhs + ₹600 lakhs + ₹1,050 lakhs) - ₹3,000 lakhs] - [₹2,100 lakhs – ₹ 1,680]	330
	Total [B]	2430
C	Balance [A - B] [As per disclosure requirement of AS - 7]	1,950
D	Progress Billings	1,800
E	Amount due from customers for contract work [D - E]	150
F	Progress payment received	1,500
G	Retentions [D - F]	300

16. (c) These costs should be reduced **by incidental income if any not** included in contract revenue, for example, sale of surplus/scrap material, disposal of plant and equipment at the end of contract.

Contract costs excludes the following:
Following costs are excluded from contract cost unless specifically chargeable under terms of contract:

- General administration cost
- Selling cost
- Research and development
- Depreciation cost of idle plant and equipment
- Cost incurred in securing the contract. Pre-contract cost - if it is not probable that contract will be obtained.

17. (a) On 25th Sept. 2014, Planet Advertising Limited obtained advertisement rights to World Cup Hockey Tournament to be held in Nov./Dec, 2014 for ₹ 540 lakhs.

They furnish the following information:

(i) The company obtained the advertisements for 70% of available time for ₹ 700 lakhs by 30th Sept, 2014.

(ii) For the balance time they got bookings in Oct, 2014 for ₹ 240 lakhs.

(iii) All the advertisers paid the full amount at the time of booking the advertisements.

(iv) 40% of the advertisements appeared before the public in Nov. 2014 and balance 60% appeared in the month of Dec, 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.

(b) When do you recognize revenue in the following cases?

(i) 'Bill and hold' scales i.e., delivery is delayed at buyer's request but buyer takes title and accepts billing.

(ii) Shipped subject to cash on delivery.

(iii) Installation fee.

(iv) Advertising commission.

Answer:

17. (a)

As per AS 9 in a transaction involving the rendering of services, performance should be measured either under the completed service contract method or under the proportionate completion method, whichever relates the revenue to the work accomplished. Further, appendix to AS 9 states that revenue from advertising should be recognized when the service is completed. The service as regards advertisement is deemed to be completed when the related advertisement appears before the public.

In the given problem, 40% of the advertisement appeared before the public in November, and balance 60% in December.

Calculation of Total Profit

Particulars	₹ in lakhs
Advertisement for 70% of available time obtained by 30th September, 2014	700
Advertisement for 30% of available time obtained in by October, 2014	240
Total	940
Less: Cost of advertisement rights	(540)
Profit	400

The profit amounting ₹ 400 lakhs should be apportioned in the ratio of 40:60 for the months of November and December, 2014. Thus, the company should recognise ₹ 160 lakhs (i.e. ₹ 400 lakhs×40%) in November, 2014 and rest ₹ 240 lakhs (i.e. ₹ 400 lakhs×60%) in December, 2014.

17. (b)

(i) Although physical delivery has been delayed, revenue should be recognized so long as there every expectation that delivery will be made. But goods sold must be in hand, identified and ready for delivery. This should not be simply the items to be manufactured or procured at the time delivery.
(ii) Revenue should be recognized on receipt of the cash by seller or his agent.
(iii) If installations are other than incidental to the sale of products, they should be recognized as revenue after installation of the equipment and acceptance by the customer.
(iv) For advertising agencies media commission will be recognized normally when the related advertisement appears before the public.

18. (a) Discuss the method of accounting followed by an Educational Institution.

(b) Discuss the Development Stage of an Internally Generated Software.

Answer:

18. (a) Accounting for Educational Institutions:

This 'Guidance Note on Accounting by Schools' primarily focuses to address the various issues by establishing sound accounting practices and recommending uniform formats of income and expenditure account and balance sheet.

An accounting framework primarily comprises the following:

i. Elements of financial statements basically comprising income, expenses, assets and liabilities
ii. Principles for recognition of items of income, expenses, assets and liabilities ,these principles lay down the timing of recognition of the aforesaid items in the financial statements.
iii. Principles of measurement of items of income, expense, assets and liabilities , it lay down at what amount the aforesaid items should be recognized in the financial statements.

iv. Presentation and disclosures principles, these principles lay down the manner in which the financial statements are to be presented and the disclosures which should be made therein.

It may be noted that what is considered as an asset, e.g., land and furniture, by a business entity is an asset for a not-for-profit organization also. Same is the case for items of income, expenses and liabilities. Similarly, insofar as the recognition principles are concerned, it is felt that there is no difference in preparing the financial statements of business entities and not-for-profit organizations such as schools. Insofar the measurement principles are concerned, the same principles are relevant to a not-for-profit organization as well as to a business entity.

18. (b)

Internally generated software arising at the development stage should be recognized as an asset if, and only if, an enterprise can find out all of the following:

The intention of the enterprise to complete the internally generated software and use it to perform the functions needed.

The intention to complete the internally generated software can be demonstrated if the enterprise commits to the funding of the software project:

(i) The technical feasibility of installing the internally generated software.

(ii) The ability of the enterprise to use the software;

(iii) The probable usefulness of and economic benefits from the software.

(iv)The availability of adequate technical, financial and other resources to complete the development and to use the software; and

(v) The capacity to measure the expenditure attributable to the software during its development.

Examples of development activities in respect of internally generated software include:

Detailed programme design for the software considering product function, feature, and technical requirements to their most detailed, logical form and is ready for coding.

19. On 1.4.2014, ₹4,000 of such Debentures were purchased by X Ltd. @ ₹98 and on 1.1.2014. ₹6,000 Debentures were sold at ₹96 ex-interest. On 1.12.2014 ₹8,000 Debentures were sold @ ₹99 cum-interest. On 31.12.2014, X Ltd. sold ₹10,000 Debentures @ ₹95.

Prepare Investment Account for 9% Debentures of Yuba Ltd. in the books of X Ltd. Ignore income-tax.

Answer:

19. **In the Books of X Ltd.**

Investment Account

(9% Debentures of Yuba Ltd. of ₹ 100 each)

Dr. **Cr.**

Date	Particulars	No. of Debentures	Value ₹	Date	Particulars	No. of Debentures	Value ₹
2014 Jan. 1 April 1	To Balance b/d To Bank – Purchases To Profit & Loss A/c Profit	200 40 ---	18,200 3,920 400	2014 Jan. 1 Dec. 1 Dec 31	By Bank – Sale By Bank – Sale By Bank - Sale	60 80 100	5,760 7,260* 9,500
		240	22,520			240	22,520

*Actual amount to be received on sale of debenture =₹(80×99) - [₹(80×100)×9%]×11/12
=₹7,920 - ₹660 =₹7,260.

20. (a) B of Bombay sent 100 T.V. sets to C of Chandigarh on consignment basis. The cost price of each set was ₹ 5,000. B paid ₹ 100 for Cartage, ₹ 1,500 for Railway Freight and ₹ 400 for Insurance Premium.

B drew a bill payable after 2 months for ₹ 50,000. After it was duly accepted by C by way of advance remittance against the consignment, B discounted the bill for ₹ 49,900.
C paid ₹ 600 for Landing Charges, ₹ 100 for Clearing, ₹ 300 for Carriage to Godown, ₹ 500 for Godown Rent. ₹ 200 for Carriage to Customers, ₹ 360 for Insurance of Godown and ₹ 100 for Advertisement. He sold 10 sets for cash @ 5,400 each and 80 sets @ ₹ 5,500 each on credit but could not realize the sale proceeds of 2 sets.
C was entitled to receive 4% ordinary commission and 1% del credere commission. The net amount due from C was received in time.
Prepare the Consignment Account and C Account in the books of B.
Also show the necessary accounts in the books of C.

(b) On 1st July, 2014 B. Dutta of Kolkata consigned 250 Computers costing ₹ 28,000 each to T. Ramasami, Chennai. Expenses of ₹17,000 were met by the consignor. T. Ramasami spent ₹14,500 for clearance on 31st July, 2014 and selling expenses were ₹ 1,500 per computer as and when the sale made by consignee. T. Ramasami sold on 4th September, 2014, 150 computers at ₹40,000 per computer and again on 21st September, 75 computers at ₹ 42,500.
Mr. Ramasami was entitled to a commission of ₹1,500 per computer sold plus one-fourth of the amount by which the gross sale proceeds less total commission there on exceeded a sum calculated at the rate of ₹35,000 per computer sold. T. Ramasami sent the account sale and the amount due to B. Dutta on 30th September, 2014 by bank demand draft. You are required to show the consignment account and T. Ramasami's account in the books of B. Dutta.

Answer:

20. (a)

Books of B
Consignment to Chandigarh Account

Dr. Cr.

Particulars	Amount	Particulars	Amount
To Goods sent on Consignment A/c	5,00,000	By C (Total sales) A/c [(10 × 5,400) + (80 × 5,500)]	4,94,000
To Bank A/c :			
Cartage	100	By Stock of Consignment A/c	50,300
Railway Freight	1,500		
Insurance	400		
To C's A/c :			
Landing Charges	600		
Clearing Charges	100		
Carriage to Godown	300		
Godown Rent	500		
Carnage to Customers	200		
Insurance of Godown	360		
Advertisement	100		
To C A/c :			
Ordinary Commission [4% of 4,94,000]	19,760		
Del Credere [1% of 4,94,000]	4,940		
To Profit & Loss (Profit on Consignment)	15,440		
	5,44,300		5,44,300

C Account

Dr. Cr.

Particulars	Amount (₹)	Particulars	Amount (₹)
To Consignment to Chandigrah A/c	4,94,000	By Bill Receivable A/c (Advance)	50,000
		By Consignment to Chandigarh A/c	
		Expenses	2,160
		Commission	24,700
		By Bank-Balance Received	4,17,140
	4,94,000		4,94,000

Working Notes:

A. The Discount on Bill ₹100 has been considered as a general financial expense/loss. If it is considered as incidental to this consignment, it may be charged to Consignment Account. But in no case it should be considered for stock valuation.

B. Valuation of Unsold Stock

	Qty. (T.V. Sets)	₹
Goods Consigned	100	5,00,000 [Cost Price]
+ Non-Recurring Expenses :		
(a) Paid by Consignor [Cartage + Railway Freight + Insurance]		2,000
(b) By Consignee [Landing Charges + Clearing Exp. + Carriage to Godown]		1,000
	100	5,03,000
Qty of stock [Sent - Sold]	10	Value $= \frac{5,03,000 \times 10}{100}$
Market Price → Assumed higher		= 50,300

C. As Del Credere Commission is paid to consignee, no special entry for credit sales and no entry for Bad Debts are required in B's [Consignor's] books.

D. No entry needed in consignee's books for goods sent to him, consignor's expenses, bill discounted by consignor and unsold stock.

Books of C [Consignee]
B Account

Dr. **Cr.**

Particulars	₹	Particulars	₹
To Bill Payable A/c	50,000	By Bank (Cash Sales) A/c	54,000
To Bank-Expenses	2,160	By Consignment Debtors A/c (Credit Sales) [5,500 × 80]	4,40,000
To Commission [19,760 + 4,940]	24,700		
To Bank-Balance Sent	4,17,140		
	4,94,000		4,94,000

Consignment Debtors Account

Dr. **Cr.**

Particulars	₹	Particulars	₹
To B A/c	4,40,000	By Bad Debts A/c [2 × 5,500]	11,000
		By Bank-Balance Realised A/c [5,500 × 78]	4,29,000
	4,40,000		4,40,000

Commission Account

Dr. **Cr.**

Particulars	₹	Particulars	₹
To Bad Debts A/c	11,000	By B A/c	24,700
To Profit & Loss A/c	13,700		
	24,700		24,700

20.(b)

Books of B. Dutta of Kolkata
Consignment to Chennai Account

Dr. **Cr.**

Date	Particulars	Amount (₹)	Date	Particulars	Amount (₹)
01.07.14	To Goods Sent on Consignment A/c	70,00,000	04.09.14	By T. Ramasami (Sales)	60,00,000
			21.09.14	By T. Ramasami (Sales)	31,87,500
01.07.14	To Bank A/c (Exp.)	17,000	30.09.14	By Stock on Consignment A/c	7,03,150
31.07.14	To T. Ramasami (Clearance Exp.)	14,500			
04.09.14	To T. Ramasami (Selling Exp.)	2,25,000			
21.09.14	To T. Ramasami (Selling Exp.)	1,12,500			
30.09.14	To T. Ramasami (Commission)	5,32,500			
30.09.14	To Profit & Loss A/c	19,89,150			
		98,90,650			98,90,650

Dr. **T. Ramasami (Chennai) Account** **Cr.**

Date	Particulars	Amount	Date	Particulars	Amount

		(₹)			(₹)
04.09.14	To Consignment A/c	60,00,000	31.07.14	By Consignment A/c (Clearance Exp.)	14,500
21.09.14	To Consignment A/c	31,87,500			
			04.09.14	By Consignment A/c (Selling Exp.)	2,25,000
			21.09.14	By Consignment A/c (Selling Exp.)	1,12,500
			30.09.14	By Consignment A/c (Commission)	5,32,500*
			30.09.14	By Bank A/c	83,03,000
		91,87,500			91,87,500

Working Notes:

(i) Calculation of Commission

Let 'x' be total commission

x = (225 x 1,500) + ¼[60,00,000 + 31,87,500 – x – 1 (35,000 x 225)

x = 3,37,500 + ¼ (91,87,500 – x – 78,75,000)

$x = 3,37,500 + 3,28,125 - \frac{x}{4}$

$\frac{5}{4}x = 6,65,625$

x = 532500*

(ii)

Valuation of stock on consignment

Particulars	₹
250 – 150 – 75 = 25 computers @ ₹ 28,000	7,00,000
Add: Consignor's Expenses = $17,000 \times \frac{25}{250}$	1,700
Add: Share of consignee's Clearing Exp. $14,500 \times \frac{25}{250}$	1,450
Value of unsold stock	7,03,150

21. (a) On 20th July, 2015 the godown and the business premises of a merchant were affected by fire. From the accounting records salvaged, the following information is made available to you:

	₹
Stock of Goods on 1st April, 2014	**1,00,000**
Stock of Goods at 10% lower than cost on 31st March, '15	**1,08,000**
Purchases of Goods for the year 1st April, 2014 to 31st March. '15	**4,20,000**
Sales for the same period	**6.00,000**
Purchases less returns from 1st April, '15 to 20th July, '15	**1,40,000**
Sales Returns for the above period	**3,10,000**

Sales up to 20th July, 2015 included ₹40,000 for which goods had not been despatched. Purchases up to 20th July, 2015 did not include ₹ 20,000 for which purchase invoices had not been received from suppliers, though goods had been received at the godown.

Goods salvaged from the accident were worth ₹12,000 and these were handed over to the insured. Ascertain the value of the claim for the loss of goods/stock which could be preferred to the insurer.

(b) On 16th August, 2015, a fire occurred in the godown of Ganges Jute Mill and the godown was destroyed. From the following information prepare a statement showing the claim to be lodged to the insurance company:

	₹
Stock on 1st January, 2014	**36,000**

Wages paid - 2014	**6,000**
(out of that Rs. 1,000 paid for construction of a stage for performing a cultural programmed by the Staff Recreation Club of Jute Mill)	
Carriage inward - 2014	**3,000**
Purchases for the year ended 31st December, 2014	**1,42,000**
Sales for the year ended 31st December, 2014	**2,03,400**
Closing stock on 31st December, 2014	**32,000**
Purchases from 1st January, 2015 to 16th August, 2015	**70,000**
Sales from 1st January, 2015 to 16th August, 2015	**82,600**
Wages from 1st January, 2015 to 16th August, 2015	**2,500**
Carriage inward from 1st January, 2015 to 16th August, 2015	**1,500**

An item of stock purchased in 2012 at a cost of ₹10,000 was valued at ₹6,000 on 31st December, 2013. Half of these goods were sold in 2014 for ₹3,400 ; the remainder of this stock was valued at ₹2,000 on 31st December, 2014. One fourth of the original quantity of these goods was sold in April, 2015 for ₹2,600. The balance of this stock was now considered to be worth 40% of its original cost. Stock of the value of ₹ 15,000 were salvaged. The amount of policy was for ₹ 42,000. There was an average clause in the policy.

Answer:

21. (a)

Dr. **Cr.**

Trading Account for the year ended 31.03.2015

Particulars	Amount ₹	Particulars	Amount ₹	Amount ₹
To Opening Stock	1,00,000	By Sales		6,00,000
`` Purchases	4,20,000	`` Closing Stock	1,08,000	
`` Gross Profit	2,00,000	Add: Under Valuation $\left[\frac{10}{90} \text{ of } 1,08,000\right]$	12,000	1,20,000
	7,20,000			7,20,000

Rate of Gross Profit in 2014-15 = $\frac{₹2,00,000}{₹6,00,000} \times 100$ = $33^1/_3$% on sales.

The net purchases in current year should be ₹ 1,40,000 + ₹ 20,000 = ₹ 1,60,000

Similarly Sales = ₹ 3,10,000 – ₹ 40,000 = ₹ 2,70,000

Memorandum Trading Account for the period from 1.4.15 to 20.7.15

Dr. **Cr.**

Particulars	Amount ₹	Particulars	Amount ₹
To Opening Stock	1,20,000	By Sales	2,70,000
`` Purchases	1,60,000	" Closing Stock (Balancing Figure)	1,00,000
`` Gross Profit $\left[\frac{1}{3} \text{ of } 2,70,000\right]$	90,000		
	3,70,000		3,70,000

Statement of Claim for Loss of Stock

Particulars	₹
Estimated Value of Stock on 20.7.15	1,00,000
Less : Value of Salvaged Stock	12,000

Stock Lost by Fire	88,000

21. (b)

Dr. **Cr.**

Trading Account for the year ended 31.12.2014

Particulars	Amount ₹	Amount ₹	Particulars	Amount ₹	Amount ₹
To Opening Stock	36,000		By Sales	2,03,400	
Less: Abnormal Item	6,000	30,000	Less: sale of Abnormal item	3,400	
					2,00,000
`` Purchases		1,42,000	`` Closing Stock	32,000	
			Less : Abnormal Item	2,000	30,000
,, Wages					
Less : Indirect Wages	6,000	5,000			
	1,000				
'' Carriage Inward		3,000			
`` Gross Profit		50,000			
		2,30,000			2,30,000

Rate of Gross Profit in 2014-15 = $\frac{₹50,000}{₹2,00,000} \times 100$ = 25% on sales.

Memorandum Trading Account for the period from 1.1.15 to 16.8.15

Dr. **Cr.**

Particulars	Amount ₹	Particulars	Amount ₹	Amount ₹
To Opening Stock	30,000	By Sales	82,600	
`` Purchases	70,000	Less : Sale of Abnormal item	2,600	80,000
'' Wages	2,500			
,, Carriage Inward	1,500	" Closing Stock (Balancing Figure)		44,000
`` Gross Profit	20,000			
	1,24,000			1,24,000

Statement of Claim for Loss of Stock

Particulars	₹
Estimated Value of Stock on 16.08.15	44,000
Add: Abnormal Item remaining unsold : ¼ × ₹ 10,000 × 40/100	1,000
	45,000
Less : Value of Salvaged Stock	15,000
Stock Lost by Fire	30,000

Since the sum assured is less than the total stock value, the insured claim will be restricted to:

₹ 42,000 / ₹ 45,000 × ₹ 30,000 = ₹ 28,000

22. (a) From the following, prepare an account current as sent by Amit to Sumit on 30th June, 2015, charging interest on debits @ 6% p.a. and on credits @ 4% p.a.:

Date	Particulars	₹
2015		

Jan. 1	Balance due from Sumit	600
Jan. 10	Sold goods to Sumit,	520
Jan. 17	Sumit returned goods	125
Feb. 10	Sumit paid by cheque	400
Feb. 14	Sumit accepted Amit's draft for one month	300
Apr. 29	Goods sold to Sumit	615
May 15	Received cash from Sumit	700
June 5	Sumit accepted Amit's bill for 3 months	500

(b) On 1st November, 2014, M/s T & T Traders sent goods valuing ₹ 1,50,000 at Invoice Price to the customers on sale or return basis. On 10th December, goods worth ₹ 40,000 were returned by customers. On 23rd December, intimation was received that goods worth ₹ 80,000 have been accepted by the customers but a reduced price of 5% which was agreed by the Traders. The customers could not yet decide anything about the rest of the goods. The Tinni & Tubai Traders invoiced goods to their customers at 25% above cost.

Show the Journal Entries in the books of M/s T & T Traders at the end of the financial year 31.12.2014.

To be noted that—

A. Only the Journal entries on 31.12.2014 have been asked for. So, it may be assumed that entries have already been made on 10th December and 23rd December, 2014.

B. The question does not clearly indicate the Invoice Price of the goods sent on 1st November, 2014. It is being assumed that ₹ 1,50,000 is the Invoice Price.

Answer:

22. (a)

SUMIT IN ACCOUNT CURRENT WITH AMIT
for the year ending on 30th June 2015

Date	Particulars	Amount	Days	Product	Date	Particulars	Amount	Days	Product
2015					2015				
Jan 1	To Balance b/d	600.00	181	1,08,600	Jan 17	By Sale Return	125	164	20,500
Jan 10	To Sales A/c	520.00	171	88,920	Feb 10	By Bank A/c	400	140	56,000
Apr 29	To Sales A/c	615.00	62	38,130	Feb 14	By B/R A/c (Due date: Mar. 17)	300	105	31,500
Jun30	To Interest A/c	27.21	---	---		By Cash A/c	700	46	32,200
	To Balance c/d	262.79	---	---	May 15	By B/R (Due date: 8th Sept.)	500	(70)	-35,000
					June 5				
		2,025		2,35,650			2,025		1,05,200

Interest on Debit side Product Total =	$2,35,650 \times \frac{6}{100} \times \frac{1}{365} =$	38.74
Interest on Credit side Product Total =	$1,05,200 \times \frac{4}{100} \times \frac{1}{365} =$	11.53
	Net =	27.21

22. (b)

Journal

Date	Particulars	L.F.	Dr. Amount (₹)	Cr. Amount (₹)

31.12.14	Sales A/c Dr. To Sundry Debtors A/c [Adjustment for goods sent on approval at I.P. and included in normal Sales but accepted at 5% lower than I.P.]		4,000	4,000
	Sales A/c Dr. To Sundry Debtors A/c [1,50,000 - 40,000 - 80,000] [Goods sent and included in Sales at I.P. but lying unconfirmed, not adjusted]		30,000	30,000
	Stock on sale or Return A/c [$\frac{100}{125}$ of 30,000] Dr. To Trading A/c [Confirmed goods with customers included in stock at Cost Price]		24,000	24,000

23. (a) AM Stores has credited some items of Sales on Approval aggregating ₹ 35,000 to Sales Account. Out of these, goods to the value of ₹ 8,000 have been returned and taken into stock at cost ₹ 6,000 though the record of return was omitted in the accounts. In respect of another parcel of ₹ 2,000 (cost being ₹ 1,500) the period of approval did not expire on the closing date.

Show the necessary entries in the books of AM Stores.

(b) Anik and Aniket decided to work a joint venture for the sale of electric motors. On 1st May 2014, Anik purchased 100 electric motors at ₹ 175 each and dispatched 75 motors to Aniket incurring ₹ 500 as freight and insurance charges. 5 electric motors were damaged in transit. On 1st April 2015, ₹ 500 were received by Anik from the insurance company, in full settlement of his claim. On 15th March 2015, Anik sold 25 electric motors at ₹ 225 each. He received ₹ 10,000 from Aniket on 1st April 2015.

On 15th May 2015, Aniket took delivery of the electric motors and incurred the following expenses:

Clearing Chares ₹ 170; Repair charges to electric motors damaged in-transit ₹ 300; Godown rent for 3 months ₹ 600.

He sold the electric motors as :

01.2.2015	**5 damaged motors ₹ 170 each**
	20 motors at ₹ 200 each
15.3.2015	**10 motors at ₹ 315 each**
01.4.2015	**40 motors at ₹ 250 each**

It is agreed that they are entitled to a commission of 10% on the respective sales effected by them; that the profits and losses shall be shared between Anik and Aniket in the ratio of 2:1. Aniket remits Anik the balance of amount due on 30th April 2015. You are required to show the Memorandum Joint Venture account only.

You are required to show the Memorandum Joint Venture Account only.

Answer:

23. (a)

Journal

Date	Particulars	L.F.	Dr. Amount	Cr. Amount

			(₹)	(₹)
	Sales A/c Dr. To Debtors A/c [Adjustment made for return of goods sent on approval and included in Sales]		8,000	8,000
	Sales A/c Dr. To Debtors A/c [Goods sent on approval and included in Sale but not yet approved]		2,000	2,000
	Stock on Sale or Return A/c Dr. To Trading A/c [Unapproved goods lying with customers included in Stock at Cost]		1,500	1,500

23. (b)

Memorandum Joint Venture Account

Dr. **Cr.**

Date	Particulars	Amount ₹	Date	Particulars	Amount ₹
2014 May 1	To Anik : Cost of Motors (100 × ₹ 175)	17,500	2015 Mar. 15	By Anik : Sale of Motors (25 × ₹ 225)	5,625
May 15	To Anik : Freight and Insurance	500	Feb. 1	By Aniket : Sale of Motors 5 × ₹ 170 = ₹ 850 20 × ₹ 200 = ₹ 4,000 10 × ₹ 315 = ₹ 3,150 40 × ₹ 250 = ₹ 10,000	18,000
	Aniket : Clearing Charge 170 Repairs 300 Ground Rent 600	1,070	April 1	By Anik : Insurance Claim	500
2015 April 15	To Anik: Commission @ 10%	563			
	To AniketCommission@10%	1,800			
" 30	ToProfit on Venture : Anik (2/3) 1,795 Aniket (1/3) 897	2,692			
		24,125			**24,125**

24. On 1st January 2015 A owes B ₹ 20,000 for which B draws on A two bills for ₹ 8,000 and ₹ 12,000 payable after 3 months and 4 months, respectively. Both the bills were drawn on 1st January 2015. B discounts both the bills with his bankers on 3rd January, at 12% p.a. Before the due date of the 1st bill, A requests B to assist him by providing with ₹ 8,000 cash and drawing a 3rd bill on him (A) for the amount plus interest @ 12% p.a. for 3 months. B agrees to this proposal and pays the money after discounting the third bill with his banker @ 12% p.a. A week before the 2nd bill for ₹ 12,000 falls due, A again asks B to assist him by providing ₹ 10,000 B, however, is not in a position to pay any cash but he arranges with A to draw on him (B) two bills for ₹ 4,000 and ₹ 6,000 at 2 months and 3 months, respectively, from the due date of the 2nd bill (₹ 12,000). B accepts these two bills and A discounts them with his bankers at 12% p.a. and, assisted by the proceeds, duly meets the 2nd bill on the due date. B fails to meet his own acceptances. On 10th June 2015 A becomes bankrupt, before meeting his third bill. On 1st September 2015, a first and final dividend on 50 paise in a rupee is received from A's estate.

Pass Journal entries and the accounts of A in the books of B.

Answer:

24.

In the books of B

Journal

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
2015 Jan. 1	Bills Receivable A/c Dr. To A A/c (Bills drawn on A for ₹ 8,000 and 12,000 payable after 3 months and 4 months, respectively)		20,000	 20,000
Jan. 3	Bank A/c Dr. Discount A/c Dr. To Bills Receivable A/c (Bills Discounted with the banker @ 12% p.a.)		19,280 720	 20,000
April 3	A A/c Dr. To Cash A/c (Cash paid to A)		8,000	 8,000
,,	A A/c Dr. To Interest A/c (Interest on ₹ 8,000 @ 12% p.a. for 3 months debited to A)		240	 240
,,	Bills Receivable A/c To A A/c (A new bill drawn on A for ₹ 8,000 plus interest, payable after 3 months)		8,240	 8,240
,,	Bank A/c Dr. Discount A/c Dr. To Bills Receivable A/c (Bills Discounted with the banker @ 12% p.a.)		7,992 248	 8,240
May 4	A A/c Dr. To Bills Payable A/c (Bills accepted for financing A for ₹ 4,000 and 6,000 payable after 2 and 3 months, respectively)		10,000	 10,000
July 6	A A/c Dr. To Bank A/c (Dishonour of 3rd bill)		8,240	 8,240
July 7	Bills Payable A/c Dr. To A A/c (Dishonour of our acceptance given to A)		4,000	 4,000
Aug. 7	Bills Payable A/c Dr. To A A/c (Dishonour of our acceptance at maturity)		6,000	 6,000
Sept. 1	Bank A/c Dr. Bad Debts A/c Dr. ToA A/c (50 paise in a rupee received from the estate of A as final dividend)		4,120 4,120	 8,240

A Account

Dr. **Cr.**

Date	Particulars	₹	Date	Particulars	₹
2015			2015		
Jan. 1	To Balance b/d	20,000	Jan. 1	By Bills Receivable A/c	20,000
Apr. 3	To Cash A/c	8,000	Apr. 3	By Bills Receivable A/c	8,240
Apr. 3	To Interest A/c	240	July 7	By Bills Payable A/c	4,000
May 4	To Bills Payable A/c	10,000	Aug. 7	By Bills Payable A/c	6,000
July 6	To Bank A/c	8,240	Sep. 1	By Bank A/c 4,120	
			Sep. 1	By Bad Debts A/c 4,120	8,240
		46,480			46,480

Workings:

I. Calculation of Discount

				₹
1^{st} bill	=	$₹\ 8{,}000 \times \frac{12}{100} \times \frac{3}{12}$	=	240
2^{nd} bill	=	$₹\ 12{,}000 \times \frac{12}{100} \times \frac{4}{12}$	=	480
				720
3^{rd} bill	=	$₹\ 8{,}240 \times \frac{12}{100} \times \frac{3}{12}$	=	248

II. Calculation of Interest

Interest = $₹\ 8{,}000 \times \frac{12}{100} \times \frac{3}{12}$ = 240

25. The Life Insurance fund of Rainbow Life insurance Co. Ltd. was ₹34,00,000 as on 31.03.2014. The actuarial valuation on 31st March, 2014 disclosed a net liability of ₹28,80,000. An interim bonus of ₹60,000 was paid to the policy holders during the previous two years. It is now proposed to carry forward ₹1,10,000 and to divide the balance between the policy holders and the shareholders.

Show the following:
(i) The Valuation Balance Sheet
(ii) Net Profit for the two years period
The distribution of the profits

Answer:

25.

In the Books of Rainbow Life Insurance Co. Ltd

Valuation Balance Sheet as on 31.03.2014

Liabilities	Amt. (₹)	Assets	Amt. (₹)
Net Liability	28,80,000	Life Insurance Fund	34,00,000
Net Profit	5,20,000		
	34,00,000		**34,00,000**

- **Net Profit for the two- year period**

Profit as per Valuation Balance Sheet	₹5,20,000
Add: Interim Bonus paid during the previous two years	₹ 60,000
Net Profit	**₹5,80,000**

- **Distribution of the profit**

Net profit	₹5,80,000
Less: Amount proposed to be carried forward	₹1,10,000
Balance of profits which can be distributed	**₹4,70,000**

Computation of the Amount Payable to the Policy Holders and Shareholders

Policyholders' Share @95% (₹4,70,000 × 95%)	₹4,46,500
Less: Interim bonus paid	₹ 60,000
Amount payable to policy holders	₹3,86,500

Shareholder's Share @ 5%
(₹4,70,000 × 5%) = ₹23,500

26. (a) The following is an extract from the Trial Balance of a Save My Money Bank Ltd. as at 31st March, 2014:

Particulars	Dr.(₹)	Cr.(₹)
Bills discounted	51,50,000	
Rebate on bills discounted not yet due, March 31.2013		30,501
Discount received		1,45,500

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

Date of Bill	Amount (₹)	Period months	Rate of Discount % p.a.
13.01.2014	7,50,000	4	12
17.02.2014	6,00,000	3	10
06.03.2014	4,00,000	4	11
16.03.2014	2,00,000	2	10

Find out the amount of discount received to be credited to Profit and Loss Account and pass appropriate Journal Entries for the same. How the relevant items will appear in the bank's Balance Sheet?

(b) Safety Life Insurance Co. Ltd. provides you the following information:

Particulars	Direct Business	Re-Insurance
Premium Received	23,00,000	3,60,000
Premium Received on 01.04.2013	1,24,000	14,000
Premium Received on 31.03.2014	1,68,000	17,000
Premium Paid	-	2,30,000
Premium Payable 01.04.2013	-	19,000
Premium Payable 31.03.2014	-	31,000

How will you show the above items in the "Revenue" Account for the year ended 31st March,2013?

Answer:

26. (a)

Calculation of Unexpired Discount of Rebate on Bills Discounted

Date of Bill	Date of Maturity	No. of days after 31.03.2013	Amount (₹)	Rate of Discount % p.a.	Total Amount of Discount	Proportionate Discount of days after 31.03.2013
13.01.2014	16.05.2014	46	7,50,000	12	90,000	$90{,}000 \times \frac{46}{365} = 11{,}342$
17.02.2014	20.05.2014	50	6,00,000	10	60,000	$60{,}000 \times \frac{50}{365} = 8{,}219$
06.03.2014	09.07.2014	100	4,00,000	11	44,000	$44{,}000 \times \frac{100}{365} = 12{,}055$
16.03.2014	19.05.2014	49	2,00,000	10	20,000	$20{,}000 \times \frac{49}{365} = 2{,}685$
						34,301

So, unexpired discounts on 31.03.2014 is ₹34,301.
The amount to be credited to Profit & Loss Account is ascertained from the Discount Account as follows:

Dr. **Discount Account** **Cr.**

Date	Particulars	₹	Date	Particulars	Date
31.03.2014	To, Rebate on Bills Discounted	34,301	01.04.2013	By, Rebate on Bills Discounted as on 01.04.2013	30,501
	To, Profit & Loss A/c	1,41,700		By, Sundries	1,45,500
		1,76,001			1,76,001

Answer:
26. (b)

Revenue Account for the year ended 31st March,2015

Particulars	Schedule	Current Year (₹'000)	Previous Year(₹'000)
Premium Earned (net)			
(a) Premium on Direct Business	2,344		
(b) Re-insurance ceded	(242)		
(c) Re-insurance accepted	363		

Working Notes:

(i) Premium earned on Direct Business and Re-insurance accepted

Particulars	Direct Business (₹'000)	Re-insurance Business accepted (₹'000)
A. Received	2,300	360
B. Add: Receivables at the end of the year	168	17
C. Less: Receivable in the beginning of the year	(124)	(14)
D. Total (A+B-C)	2,344	363

(ii) Re-insurance Premium on Re-insurance business Ceded for the year

	₹'000
A. Paid during the year	230
B. Add: Payable at the end of the year	31
C. Less: Payable in the beginning of the year	(19)
D. Total (A+B-C)	242

27. (a) From the following details prepare "Acceptances, Endorsements and other Obligation A/c" as would appear in the general ledger.

On 01.04.2014 Acceptances not yet satisfied stood at ` 22,30,000. Out of which ` 20 lacs were subsequently paid off by clients and bank had to honour the rest. A scrutiny of the Acceptance Register revealed the following:

Client	Acceptances/ Guarantees	Remarks
	(₹)	
A	10,00,000	Bank honoured on 10.06.2014
B	12,00,000	Party paid off on 30.09.2014
C	5,00,000	Party failed to pay and bank had to honour on 30.11.2014
D	8,00,000	Not satisfied upto 31.03.2015
E	5,00,000	-do-
F	2,70,000	-do-
Total	42,70,000	

(b) Calculate depreciation as per 2009 regulations from the following information of NTPC Power generation Project

Date of commercial operation/Work Completed Date	**11-Jan-1996**
Beginning of Current year	**1-Apr-2011**
Useful life	**35 years**

(Figures in ₹ Crores)

1.	Capital Cost at beginning of the year	2011-12	222.000
2.	Additional Capitiisation during the year:	2012-13	10.560
		2013-14	29.440
3.	Value of Freehold Land		12.000
4.	Depreciation recovered up to 2009-10		48.600
5.	Depreciation recovered in 2010-11		5.400

Note: Capital Cost and Accumulated Depreciation at the beginning of the year are as per tariff order FY 2011-12

Answer:

27. (a)

Acceptances, Endorsements and other Obligation Account
(in general ledger)

Dr. **Cr.**

Date	Particulars	Amount (₹ '000)	Date	Particulars	Amount (₹ '000)
2012-13	To, Constituents' liabilities for acceptances/guarantees etc. (Paid off by clients)	20,00	1.4.14	By, Balance b/d	22,30
	To, Constituent's liabilities for acceptances/ guarantees etc (Honoured by bank ₹ 22.30 lakhs less ₹ 20 lakhs)	2,30	2012-13	By, Constituents liabilities for acceptances/ guarantees etc. A 10,00 B 12,00 C 5,00 D 8,00 E 5,00 F 3,00	43,00
10.6.12	To, Constituents' liabilities for acceptances / guarantees etc. (Honoured by bank)	10,00			
30.9.12	To, Constituents' liabilities for acceptances / guarantees etc. (Paid off by party)	12,00			
30.11.12	To, Constituent's liabilities for acceptances / guarantees etc. (Honoured by bank on party's failure to pay)	5,00			
31.3.13	To, Balance c/d (Acceptances not yet satisfied)	16,00			
		65,30			65,30

Answer:

27. (b)

Name of the Power Station: NTPC Power Generation Project
Date of commercial operation/Work Completed Date: 11-Jan-1996
Beginning of Current year: 1-Apr-2011
Useful life: 35 years
Remaining Usefullife: 20 years

Statement showing the Calculation of Depreciation

Particulars	2011-12	2012-13	2013-14

A. Opening Capital Cost	222.00	222.00	232.56
B. Additional Capital Cost	0.00	10.56	29.44
C Closing Capital Cost	222.00	232.56	262.00
D. Average Capital Cost [(A + C)/2]	222.00	227.28	247.28
E. *Less:* Cost of Freehold Land	12.00	12.00	12.00
F. Average Capital Cost for Depreciation (D - E)	210.00	215.28	235.28
G. Depreciable value (90% of F)	189.00	193.75	211.75
H. Depreciation recovered upto prev. year *(48.6 + 5.4)	*54.00	60.75	67.75
I. Balance Depreciation to be recovered (G - H)	135.00	133.00	144
J. Balance useful life out of 35 years	20.00	19.00	18.00
K. Yearly depreciation from 2011-12 (1/J)	6.75	7.00	8.00
L. Depreciation recovered upto the year (H + K)	60.75	67.75	75.75

28. (a) From the following information Calculate Interest on Loans as per Regulation 21 of the Central Electricity Regulatory Commission (Terms and Conditions of Tariff) Regulation,2004:

(I) Date of Commercial Operation of COD = 1st April 2010

(II) Approved Opening Capital Cost as on 1st April 2012 = ₹1,50,000

(III) 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**
Repayment of Loan	**8,000**	**10,000**	**10,000**	**12,000**
Weighted Average Rate of Interest on Loan	**7.4**	**7.5**	**7.6**	**7.5**

(b) From the following figures appearing in the books of Fire Insurance division of KPK General Insurance Company, show the amount of claim as it would appear in the Revenue Account for the year ended 31st March, 2015 :

Particulars	Direct Business	Re-Insurance
	₹	₹
Claim paid during the year	70,05,000	10,50,000
Claim Payable — 1st April, 2014	11,44,500	1,30,500
31st March, 2015	12,18,000	79,500
Claims received	–	3,45,000
Claims Receivable — 1st April, 2014	–	98,000
31st March, 2015	–	1,69,500
Expenses of Management (includes ₹ 52,500 Surveyor's fee and ₹ 67,500 Legal expenses for settlement of claims)	3,45,000	–

Answer:

28. (a)

Particulars	1st year	2nd year	3rd year	4th year
A. Opening Loan (70%)	1,05,000	1,12,000	1,14,100	1,15,500

B. Additional Loans (70%)	7,000	2,100	1,400	700
C. Less: Repayment of Loan during the year	8,000	10,000	10,000	12,000
D. Net Closing Loan (A+B-C)	1,04,000	96,100	87,500	76,200
E. Average Loan [(A+D)/2]	1,04,500	1,00,050	91,800	81,850
F. Weighted Average Rate of Interest on Loan	7.4	7.5	7.6	7.5
G. Interest on Loan (E×F)	7,733	7,503.75	6,976.80	6,138.75

28. (b)

XYZ General Insurance Company
(Abstract showing the amount of claims)

Particulars	**₹ '000**	**₹ '000**
Claims *less* Re-insurance :		
Paid during the year	7830.00	
Add : Outstanding claims at the end of the year	1128.00	
	8958.00	
Less : Outstanding claims at the beginning of the year	1177.00	7781.00

Working Notes :

	Particulars	**₹ '000**	**₹ '000**
1.	Claims paid during the year		
	Direct business	7005.00	
	Reinsurance	1050.00	8055.00
	Add : Surveyor's fee	52.50	
	Legal expenses	67.50	120.00
			8175.00
	Less : Claims received from re-insurers		345.00
			7830.00
2.	Claims outstanding on 31st March, 2015		
	Direct business	1218.00	
	Reinsurance	79.50	1297.50
	Less : Claims receivable from re-insurers		169.50
			1128.00
3.	Claims outstanding on 1st April, 2014		
	Direct business	1144.50	
	Reinsurance	130.50	1275.00
	Less : Claims receivable from re-insurers		98.00
			1177.00

29. Write a note on —
(a) Reversionary Bonus
(b) Reserve for Unexpired Risk

Answer:

29. (a) Reversionary Bonus

In the case of life policies with profits, policyholders are given the right to participate in the profits of the business. After nationalization, policyholders are given 95% of profits of L.I.C. by way of bonus. Bonus can be paid in cash, adjusted against the future premiums due from the policy holders or it can be paid on the maturity of the policy, together with the policy amount. Bonus paid at the end along with the policy amount is called Reversionary Bonus.

29. (b) Reserve for Unexpired Risk

This is applicable in General Insurance business only. This is in the nature of provision for claims that may arise in respect of policies which are subsisting on the date of balance sheet. Since premium has already been received in respect of such policies, provision must be made for the claims that may arise out of such policies.
Insurance business is peculiar in that the premium is received in advance but the risk can arise on any day. In general insurance the policy is issued for a year which means the risk is covered for a year. Chances of the risk covered occurring do not come down proportionately with the passage of time.
For example, if on the balance sheet date the unexpired period of a particular policy is one month (eleven months having expired) we cannot say that the risk on the policy is reduced to 1/ 12th of the total risk. Even on the last day of the policy company's risk is as high as it was on the day the policy was issued.
Therefore, insurance companies must provide for the risks associated with all such policies for which the premia has been received and the policies are still in force. Thus a large portion of the premia collected must be kept in reserve for unexpired risk. Keeping in view the nature of the business, the Executive Committee of the General Insurance Council (which has been set up under the Insurance Act to supervise general insurance companies) has laid down that in the case of marine insurance the provision for unexpired risk should be 100% of the net premium and in the case of other businesses (like accident, fire, theft, etc.) the provision should be 50% of the net premium.
The provision made on the balance sheet date will be shown on the debit side of the revenue account instead of subtracting from premia. The balance of provision also appears in the balance sheet on the liabilities side under the heading 'balance of funds and accounts'. This provision will be transferred to the credit side of next year's revenue account. Thus in the revenue account the balance of the previous year appears on the credit side and the balance provided for the current year appears on the debit side.

30. Write a Note on —
(a) Rebate on Bill Discounted
(b) Steps of Optimised Depreciated Replacement Cost Method.

Answer:

30. (a) Rebate on Bills Discounted

One of the major functions of a bank is to discount customers' bill. We know that when the bill is discounted by the bank Bill Discounted and Purchased Account should be debited with full amount and Customers' Current Account is credited for such discounting by the bank with net amount. In this way, total amount of discount so earned during this year is credited to Interest and Discount Account. Discount is calculated from the period of discounting the bill to the date of maturity of the bill. This is the usual transactions which are recorded in the books of bank for discounting of the bill. No problem will arise if the entire amount of discount is received during the period. In real world situation, this is not happened as the bill may not have matured for payment during the period of closing the accounts. Thus, an adjustment is required for discounting of those bills which are related to next accounting periods.

30. (b) Steps of Optimised Depreciated Replacement Cost Method

The ODRC method comprises the following steps:

Step 1: Preparing a detail Asset Register containing data on quantity, location, physical condition, age and maintenance of the assets.

Step 2: Calculation of the Replacement Cost (i.e. Cost of replacing the assets with modern equivalent assets).

Step 3: Assessment of Depreciation. The new assets at replacement costs identified earlier need to be depreciated in case the life of the existing asset is lower than the life of the new assets.

Step 4: System Optimisation: This is done to measure the most cost effective way of delivering service, in terms of capacity and quality to meet the requirements.

This involves three levels:
• Capacity Optimisation both in size and number
• Optimisation of spares
• Optimisation of unit costs