INTERMEDIATE EXAMINATION

GROUP I

(SYLLABUS 2012)

SUGGESTED ANSWERS TO QUESTIONS

DECEMBER 2013

Paper-5: FINANCIAL ACCOUNTING

Time Allowed: 3 Hours **Full Marks: 100**

The figures in the margin on the right side indicate full marks.
Section A is compulsory and answer any five questions from Section B

SECTION A

1. Answer the following question (give workings wherever required): 2 x 10= 20

(i) A trader acquired furniture & fittings for ₹ 10,000 but included the same in purchase account. He paid ₹ 5,000 to a supplier which was omitted to be recorded in the books. State the types of errors and pass journal entries to rectify the errors.

(ii) State briefly the three fundamental accounting assumptions.

(iii) The company maintains 10% of debtors as provision towards bad debts. It has routed all bad debts through the provision account. The opening balance of provision as on 01.04.2012 was ₹ 68,000. The closing provision i.e., on 31st March, 2013, was ₹ 92,000. Bad debts written off debited to provision account was ₹ 28,000. How much should be debited to Profit & Loss Account towards provision for doubtful debts for the year ended 31st March, 2013?

(iv) A fire damaged the premises of a trader resulting in loss of stock of ₹ 1,10,000. The goods salvaged from fire was ₹ 40,000. The policy was for ₹ 50,000 eligible for average clause. Decided the quantum of claim to be lodged with the insurance company.

(v) Fact General Insurance Company informs you that the claims outstanding on 01.04.2012 was ₹ 5,20,000 and claims paid during the financial year 2012-13 was ₹ 64,50,000. The claims outstanding as on 31.03.2013 was ₹ 5,60,000 and claims recoverable from re-insures being ₹ 1,90,000. Calculate the amount of claims incurred which is to be charged to its revenue account.

(vi) New Bank Ltd. informs you the following:

(a) Bill discount commission (unadjusted)	**₹ 21,00,000**
(b) Rebate on bills discounted as on 01.04.2012	**₹ 2,43,000**
(c) Rebate on bills discounted as on 31.03.2013	**₹2,18,000**

Compute the discount to be credited to the profit and loss account of the Bank for the year ended 31.03.2013.

(vii) **On 01.01.2010, M/s. Johnson and Co. Ltd. purchased machinery for ₹ 1,00,000. Subsequently, ₹ 50,000 was paid for installation. Assuming that the rate of depreciation was 10% on Reducing Balance Method, determine the Closing Book Value of the Machine as at 31.12.2012.**

(viii) **P, Q and R are three partners sharing profit and loss equally. Their respective capitals as on 01.04.2012 were P – ₹ 80,000, Q – ₹ 60,000 and ₹ – ₹ 50,000.**
They mutually agreed on the following points as per the partnership deed:

- **Interest on capital to be allowed @ 5%.**
- **P to receive a salary to ₹ 500 per month.**
- **Q to receive a commission @ 4% on net profit after charging such commission.**
- **After charging all other items, 10% of the net profit to be transferred to General Reserve.**

The firm made profit of ₹66,720 during the financial year 2012-13. What will be the Net Divisible Profit available to each partner?

(ix) **From the following particulars, calculate the value of unsold goods on consignment:**

	₹
Goods sent on consignment (1500 kgs.)	**3,30,000**
Consignor's expenses	**13,000**
Consignee's non-recurring expenses	**7,000**
Consignee's recurring expenses	**3,500**
Goods sold by consignee (1000 kgs.)	**3,50,000**
Wastage treated as normal (100 kgs.)	**---**

(x) **Mr. Vikas sold 1,500, 10% debentures (face value ₹ 100 each) of Shiva Limited at ₹ 125 cum-interest on 01.12.2013. The interest is payable on 31st March and 30th September every year. Find out the actual amount received by Vikas (excluding interest) on account of sale of investment.**

Answer:

(i) The first error is error of principle. The capital expenditure has been claimed as revenue expenditure. The second one is, error of omission.

The Journal Entries are:

Particulars	₹	₹
Furniture Fittings A/c Dr. To Purchase A/c [Being error in purchase A/c being rectified]	10,000	 10,000
Sundry Creditors A/c Dr. To Cash A/c [Being the omission to record the transaction now being recorded]	5,000	 5,000

(ii) The three fundamental assumptions are (a) going concern; (b) consistency; and (c) accrual.

Going Concern: It is assumed that the concern would be continuing in operation in the foreseeable future and there would be no interim necessity of liquidation or winding up or reducing scale of operation.

Consistency: The accounting policies followed are consistent from one accounting period to another.

Accrual: the revenues and expenses are accrued and recorded in the financial statements. There is matching of revenue against relevant costs.

(iii)

Provision for bad and doubtful debts account

Particulars	₹	Particulars	₹
To Sundry Debtors	28,000	01.04.2012 By Balance B/d.	68,000
31.03.2013			
To Balance c/d.	92,000	31.03.2013 By P&L A/c	52,000
	1,20,000		1,20,000

(iv) Loss of Stock =₹1,10,000
Less: Stock salvage =₹40,000
Net Loss =₹70,000
Applying average clause,
Amount of Claim = Amount of policy x Net loss / Actual loss of stock
= ₹50,000 x 70,000 / 1,10,000
= ₹ 31,818

(v)

Fact General Insurance Co. Ltd.
Claims incurred (Net)

	₹
Claims paid	64,50,000
Add: Claims outstanding at the end of the year	5,60,000
	70,10,000
Less: Claims outstanding at the beginning of the year	5,20,000
	64,90,000
Less: Recoverable from re-insures as on 31.03.2013	1,90,000
	63,00,000

(vi)

New Bank Ltd
Rebate on Bills Discounted A/c

31.03.2013	₹	01.04.2012	₹
To P&L A/c (Balancing Fig.)	21,25,000	By balance b/b	2,43,000
		31.03.2013	
31.03.2013		By Sundry Parties	21,00,000
To balance c/d.	2,18,000		
	23,43,000		23,43,000

(vii) ₹ 1,09,350

Year	Opening Book Value – ₹	Rate	Depreciation	Closing Book Value – ₹
2010	1,50,000	10%	15,000	1,35,000
2011	1,35,000	10%	13,500	1,21,500
2012	1,21,500	10%	12,150	1,09,350

Closing Book Value of the Machine as at 31.12.2012 will be ₹ 1,09,350.

(viii) ₹ 14,775

Calculation of Net Divisible Profit available to each of the partners.

Profit and Loss Account (given) **Less:** Interest on Capital P ₹ 4,000 Q ₹ 3,000 R ₹ 2,500 ₹ 9,500 **Less:** Salaries – P (₹ 500 x 12) ₹ 6,000 **Less:** Commission payable to Q 4 / 104 x (66,720 – 15,500) ₹ 1,970 General Reserve transfer (₹ 51,220 – ₹ 1,970) x 10% ₹ 4,925	₹ 66,720 ₹ 22,395
Net Divisible Profit available to all the partners equally	₹ 44,325

Net Divisible Profit available to each of the partner will amount to
= ₹ 44,325 / 3 = ₹ 14,775.

(ix) Value of unsold Goods :
Unsold quantity = 1,500 – 1,000 – 100 = 400 Kgs.

Cost of goods sent (3,30,000) + Consignor's Exp. (13,000) + Consignee's non-recurring exp. (7,000) = 3,50,000.
Value of unsold goods = [3,50,000 /(1,500 - 100)] x 400 = ₹ 1,00,000.

(x) Total amount received from sale of debentures (cum-Interest) = 1,500 x 125 = ₹ 1,87,500
Less: Interest from 01.10.2013 to 30.11.2013 (1,500 x 100 x 10% x 2/12) = ₹2,500
Actual amount received (excluding interest) on A/c of sale of Investments=**₹ 1,85,000**

SECTION B

2.

(a) The Ledger of Paurush showed that the balance of debtors and creditors as on 1st April, 2012 was as follows:
Total debtors ₹ 2,70,000 and Total Creditors ₹ 3,20,000.
The following transactions took place during the year ended 31st March, 2013:

	(₹)
Credit sales	**5,50,000**
Cash sales	**1,70,000**
Credit purchases	**3,80,000**
Cash purchases	**1,25,000**
Cash received from Debtors	**2,20,000**
Cash paid to Creditors	**1,80,000**
Bills receivable received	**2,70,000**
Bills payable accepted	**2,85,000**
Discount allowed	**20,000**
Discount received	**15,000**
Bad debts	**25,000**
Bills receivable dishonoured	**45,000**
Bad debts recovered	**7,000**

Bills receivable – old cancelled & renewed	80,000
Interest on bills receivable renewed	4,000
Provision for discount on Debtors	16,000
Provision for discount on Creditors	12,000
Bills receivable endorsed to Creditors	20,000

You are required to prepare the Total Debtors Account and Total Creditors Account in the General Ledger of Paurush on 31st March, 2013. **8**

(b) What are the steps or phases of 'Accounting Cycle'? **4**

(c) When can revenue be recognized as per AS – 9, in the case of transaction of sale of goods? **4**

Answer:

(a)

General Ledger of Paurush

Total Debtors Account

Date	Particulars	₹	Date	Particulars	₹
1.4.12	To Balance b/d	2,70,000	31.3.13	By Cash A/c	2,20,000
31.3.13	To Sales (credit) A/c	5,50,000	31.3.13	By Bills Receivables A/c	2,70,000
31.3.13	To B/R (Dishonoured) A/c	45,000	31.3.13	By Discount allowed	20,000
31.3.13	To B/R A/c (Cancelled)	80,000	31.3.13	By Bad-Debts A/c	25,000
31.3.13	To Interest A/c	4,000	31.3.13	By B/R A/c (Renewed with interest (80,000+4,000))	84,000
			31.3.13	By Balance c/d	3,30,000
		9,49,000			**9,49,000**
1.4.13	To balance b/d (opn. Balance)	**3,30,000**			

Total Creditors Account

Date	Particulars	₹	Date	Particulars	₹
31.3.13	To Cash A/c	1,80,000	1.4.12	By Balance c/d	3,20,000
31.3.13	To B/P A/c	2,85,000	31.3.13	By Purchases (credit)	3,80,000
31.3.13	To Discount received A/c	15,000			
31.3.13	To B/R A/c (Endorsed)	20,000			
31.3.13	To Balance c/d	2,00,000			
		7,00,000			**7,00,000**
			1.4.13	By balance b/d (opn. Balance)	**2,00,000**

Bad-debts recovered, Provision for discount on debtors, Provision for discount on creditors, cash sales & cash purchases are not shown in total debtors A/c /total creditors A/c.

(b) Steps/Phases of Accounting Cycle:

(i) Recording of Transaction: As soon as a transaction happens it is at first recorded in subsidiary book.

(ii) Journal : The transactions are recorded in Journal chronologically.

(iii) Ledger: All journals are posted into ledger chronologically and in a classified manner.

(iv) Trial Balance: After taking all the ledger account's closing balances, a Trial Balance is prepared at the end of the period for the preparations of financial statements.

(v) Adjustment Entries : All the adjustments entries are to be recorded properly and adjusted accordingly before preparing financial statements.

(vi) Adjusted Trial Balance: An adjusted Trail Balance may also be prepared.

(vii)Closing Entries: All the nominal accounts are to be closed by the transferring to Trading Account and Profit and Loss Account.

(viii)Financial Statements: Financial statement can now be easily prepared which will exhibit the true financial position and operating results.

(c) The basic principle of revenue recognition is "Right to Receive", which may be analysed under the prescribed parameters. As per AS - 9 that are:

- Seller has transferred the ownership of goods to buyer for a price.
  Or,
- All significant risks and rewards of ownership have been transferred to buyer.
- Seller does not retain any effective control of ownership on the transferred goods.
- There is no significant uncertainty in collection of the amount of consideration.

Revenue from Sale of goods is recognised when all the above conditions are fulfilled.
If delivery is delayed at buyer's request and buyer takes title and accepts billing, then the revenue should be recognised immediately, but goods must be in the hands of seller, identified and ready for delivery at the time of recognition of revenue.

3.

(a) On 20th July, 2012, Sohan drew a bill for ₹ 50,000 on Mohan for the period of four months and Mohan accepted it. It was for mutual accommodation of both to the extent of 2/3rd and 1/3rd. on 23rd July, 2012, Sohan discounted the bill with the Bank @ 12% per annum and remitted one-third of proceeds to Mohan. On 18th November, 2012 Mohan drew another bill for ₹71,000 on Sohan to provide funds to meet the first bill, for the period of three months, which was accepted by Sohan. On 21st November, 2012, Mohan discounted it with Bank @ 12% per annum. With this amount, the first bill was met out and ₹ 12,580 was remitted to Sohan. On 1st February, 2013, Sohan became insolvent and Mohan received a dividend of 60 paise in a rupee in full settlement on 15th February, 2013.

Give journal entries to record the above transactions in the books of Sohan and prepare Sohan's account in the ledger of Mohan. **10**

(b) What is Del Credere commission? **3**

(c) Imarn Co. Ltd. deals in manufacture of certain products. It gives you the following information for the year ended 31st march, 2013, with respect to the closing stock of these items:

Items	Historical cost (₹)	Net realizable value (₹)

X	25,00,000	19,00,000
Y	62,00,000	60,00,000
Z	15,00,000	21,00,000

Compute the value of closing stock. 3

Answer:

(a)

Journal of Sohan

Date	Particulars		₹	₹
20.07.2012	B/R A/c	Dr.	50,000	
	To Mohan			50,000
	(B/R Acceptance received)			
23.07.2012	Bank A/c	Dr.	48,000	
	Discount A/c	Dr.	2,000	
	To B/R A/c			50,000
	(B/R discounted @ 12% per annum)			
23.07.2012	Mohan A/c	Dr.	16,667	
	To Bank / Cash A/c			16,000
	To Discount A/c			667
	(Remittance sent to Mohan & 1/3 of discount debited)			
18.11.2012	Mohan A/c	Dr.	71,000	
	To B/P A/c			71,000
	(Bill of Mohan accepted)			
24.11.2012	Cash A/c	Dr.	12,580	
	Discount A/c	Dr.	1,420	
	To Mohan			14,000
	(Amount received from Mohan & 2/3 discount charged by him)			
01.02.2013	B/P A/c	Dr.	71,000	
	To Mohan			71,000
	(B/P dishonoured)			
15.02.2013	Mohan A/c	Dr.	47,333	
	To Cash A/c			28,400
	To Deficiency A/c			18,933
	(Payment of 60 paise in a rupee made to mohan for the amount due)			

Ledger of Mohan
Sohan's A/c

Date	Particulars	₹	Date	Particulars	₹
20.07.12	To B/P A/c	50,000	23.7.12	By Cash A/c	16,000
23.11.12	To Cash A/c	12,580		By Discount A/c	667
	To Discount A/c	1,420	18.11.12	By B/R A/c	71,000
01.02.13	To B/R A/c	71,000	15.2.13	By Cash A/c	28,400
				By Bad Debts	18,933
		1,35,000			**1,35,000**

Calculation of distribution of discount

In case of accommodation bills, the proceeds of discounting are shared by parties as agreed. The discounting charges are also shared in agreed proportion. Here, the ratio between Sohan and Mohan is given as two – third and one –third.

	1st Bill		2nd Bill	
	Proceeds (₹)	**Discount(₹)**	**Proceeds (₹)**	**Discount(₹)**
Sohan (2/3)	32,000	1,333	45,913	1,420
Mohan (1/3)	16,000	667	22,957	710
Total	48,000	2,000	68,870	2,130

(b) Sometimes the consignor allows an extra commission to the consignee in order to cover the risk of collection from customers, on account of credit sales which is known as Del Credere Commission. Naturally, if debt is found to be irrecoverable the same must be borne by the consignee. There will be no effect in the books of consignor. In short, the credit sales will be treated as cash sales to consignor.

If no Del Credere Commission is given by the consignor to the consignee, the amount of Bad Debts must be borne by the consignor.

(c) According to AS – 2 Valuation of Inventories para 5, inventories should be valued as per cost or net realizable value, whichever is lower. Thus inventories should be valued as per item-wise as given below:

Items	Historical cost	Net realizable value	Valuation of closing stock
X	25,00,000	19,00,000	19,00,000
Y	62,00,000	60,00,000	60,00,000
Z	15,00,000	21,00,000	15,00,000
	1,02,00,000	1,00,00,000	94,00,000

So, the closing stock should be valued at ₹ 94,00,000.

4.

(a) The Income and expenditure Account of Shooters Club for the year ended 31st March, 2013 is given below:

Expenditure	₹	Income	₹
To Salaries	**35,000**	**By Subscription**	**40,000**
To General expenses	**5,000**	**By Donation**	**10,500**
To Depreciation	**3,000**		
To Excess of Income Over Expenditure	**7,500**		
	50,500		**50,000**

Adjustments are made in respect of the following:

(i) Subscription for 2012 unpaid at 31.03.2012 ₹ 2,000 of which ₹ 1,800 was received in December 2012.

(ii) Subscription received in advance as on 01.04.2012 was ₹ 500.

(iii) Subscription received in advance as on 31.03.2013 is ₹ 400.

(iv) Subscription for 2012-13 unpaid as on 31.03.2013 is ₹ 700.

(v) Sundry asset as on 01.04.2012 ₹ 26,000. Sundry asset as on 31.03.2013 after depreciation ₹ 27,000.

(vi) Cash balance as on 01.04.2012 ₹1,600.

(vii)Capital fund as on 01.04.2012 ₹29,100.

Prepare:

(i) Receipts and Payments A/c for the year 2012-13.

(ii) Balance Sheet as at 31.03.2013. **10**

(b) Kapil, Manoj and Chetan are partners sharing profits and losses in the ratio of 2 : 2 : 1. On 1st January, 2010, they took out a joint life policy of ₹ 2,00,000. Annual premium of ₹ 10,000 was payable on 1st January each year. Last premium was paid on 1st January, 2013. Manoj died on 1st March, 2013, and policy money was received on 31st march, 2013. The surrender value of policy as on 31st March each year were as follows:

2010 : Nil
2011 : ₹ 2,000
2012 : ₹ 5,000
Show Joint Life Policy accounts as on 31st March each year assuming that:

(i) The premium is charged to profit and loss account every year.
(ii) The premium is debited to joint life policy account and the balance of the joint life policy account is adjusted every year to its surrender value. 6

Answer:

(a)

Shooters Club
Receipts & Payment Account for the year ended 31 March, 2013

Particulars	₹	Particulars	₹
To Balance b/d	1,600	By Salaries	35,000
To Donations	10,500	By General expenses	5,000
To Subscription (cash received)	41,000	By Sundry Assets	4,000
		By Balance c/d	9,100
	53,100		**53,100**

Subscription Account

Date	Particulars	Amount (₹)	Date	Particulars	Amount (₹)
1.4.12	To Subscription Receivable A/c (Opening balance of receivable, i.e. outstanding as on 31.3.2012)	2,000	1.4.12	By Subscription Received in Advance A/c (Opening balance of received in advance as on 1.4.12)	500
31.3.13	To Income & Exp. A/c (figure taken from I & E A/c) (given)	40,000	**31.3.13**	**By Receipts & Payments A/c (cash received during the year) (balancing figure)**	**41,000**
31.3.13	To Subscription Received in Advance A/c (closing balance of received in advance, as on 31.3.2013)	400	31.3.13	By Subscription Receivable A/c (closing balance of receivable as on 31.3.2013) **[2011-12 = 200 2012-13 = 700]**	**900**
		42,400			**42,400**

Sundry Assets Account

Particulars	₹	Particulars	₹
To Balance b/d	26,000	By Depreciation	3,000
To Purchase (bal.fig)	4,000	By Balance c/d.	27,000
	30,000		30,000

Balance Sheet as at 31.03.2013

Liabilities	₹	Assets	₹
Capital fund	29,100	Sundry assets	27,000
Add: Excess of income over expenditure		Cash on hand	9,100
	7,500	Subscription due	
	36,600	2011-12	200
Subscription in advance 13-14	400	2012-13	700
	37,000		37,000

(b)

(i) In this case, premium paid is charged to Profit & Loss account every year. So nothing will appear in the joint life policy account of 2010, 2011 and 2012. However in 2013, the joint life policy account will appear as follows.

Joint Life Policy A/c

Date	Particulars	₹	Date	Particulars	₹
31.03.13	To Partner's Capital A/c (Kapil ₹ 80,000; Manoj ₹ 80,000; Chetan ₹ 40,000)	2,00,000	31.03.13	By Bank (policy money received)	2,00,000
		2,00,000			2,00,000

(ii)

Joint Life Policy A/c

01.1.10	To Bank A/c premium	10,000	31.03.10	By P&L a/c	10,000
		10,000			10,000
01.01.11	To Bank A/c premium	10,000	31.03.11	By P&L a/c	8,000
			31.03.11	By Balance c/d	2,000
		10,000			10,000
01.04.11	To Balance b/d	2,000	31.03.11	By P&L a/c	7,000
01.01.12	To Bank A/c premium	10,000	31.03.12	By Balance c/d	5,000
		12,000			12,000
01.04.12	To Balance b/d	5,000			
01.01.13	To Bank a/c premium	10,000	31.03.13	By bank a/c (policy money received	2,00,000
31.03.13	To Partner's capital A/cs (Kapil 74,000, Manoj 74,000, Chetan 37,000)	1,85,000			
		2,00,000			**2,00,000**

5.

(a) Mr. Vakil requests you to ascertain the bank balance as per pass book as on 31.03.2013 from the following details:

(i) Balance as per cash book ₹ 51,515.

(ii) Cheques issued but not presented for payment ₹ 21,000.

(iii) Cheques deposited but not credited to the account of Mr. Vakil ₹ 18,000.

(iv) One cheque worth ₹ 5,000 deposited by Mr. Vakil was dishonoured but was not entered in the cash book.
(v) Premium of ₹ 6,000 towards insurance policy was debited by the bank, as per standing instruction.
(vi) Fixed deposit interest of ₹ 1,100 was credited by the bank, but not recorded in cash book. 6

(b) **Prepare a Branch Account in the books of Head Office from the following particulars for the year ended 31st March, 2013, assuming that H.O. sold goods at cost plus 25%.**

Particulars	₹	Particulars	₹
Stock on 01.04.2012*	2,72,500	Bad debts	2,000
Debtors on 01.04.2012	15,000	Allowances to customers	1,000
Petty cash on 01.04.2012	1,000	Return inward	1,000
Goods sent to Branch	3,60,000	Rates & Taxes	5,000
Goods returned to H.O.	25,000	Salaries	18,000
Cash sales	54,000	Misc. expenses	4,000
Cash received from debtors	2,30,000	Stock on 31.03.2013*	3,15,000
		Debtors on 31.03.2013	74,000
		Petty cash (31.03.2013)	5,000

* Both opening and closing stock at invoice price. 6

(c) **State the specified category of assets, to which Accounting standard 6 on "Depreciation Accounting" is not applicable.** 4

Answer:

(a)

Bank reconciliation statement as on 31st March 2013

Particulars	₹	₹
Balance as per cash book		51,515
Add: Cheques issued but not presented by customers to the bank		21,000
Fixed deposit interest credited by the bank		1,100
		73,615
Less: Cheques deposited but not credited by the bank	18,000	
Cheque deposited and which got dishonoured	5,000	
Life insurance premium debited in the passbook	6,000	
		29,000
Balance as per pass book		44,615

(b)

In the books of H.O
Branch Account

Dr. **Cr.**

Particulars	₹	₹	Particulars	₹	₹
To Balance b/d			By Stock reserve		54,500
Stock	2,72,500		By Bank A/c		
Debtors	15,000		Cash Sales	54,000	
Petty cash	1,000		By Cash received		
		2,88,500	from debtors	2,30,000	
To Good sent to branch		3,60,000			2,84,000

To Bank A/c:			By Goods sent to		
Rates & Taxes	5,000		Branch (Return		
Salaries	18,000		To H.O)		25,000
Misc. expenses	4,000		By Goods sent to		
		27,000	Branch (loading)		72,000
To Goods sent to branch		5,000	By Balance C/d		
(loading on returns)			Stock	3,15,000	
To Closing stock reserve		63,000	Debtors	74,000	
(3,15,000X1/5)			Petty cash	5,000	
To General P&L A/c		86,000			3,94,000
		8,29,500			8,29,500

(c) AS - 6 not applicable to specified category of assets.
AS - 6 is not applicable to the following category of assets, like

- Forests, Plantations
- Wasting Assets, Minerals and Natural Gas
- Expenditure on Research and Development
- Goodwill
- Live stock - like Cattle, Animal Husbandry.

6.

(a) **Bharat Electricity Company laid a main at a cost of ₹ 50 lakh. Some years later, the company laid down an auxiliary main for 1/5th of the length of the old main at a cost of ₹ 15 lakhs. it also replaced the rest of the length of the old main at a cost of ₹ 60 lakhs, the cost of materials and labour having gone up by 15%. Sale of old material realized ₹ 80,000. Old materials valued at ₹ One lakh were used in renewal and those valued at ₹ 50,000 were used in the construction of the auxiliary main.**

You are required to give the journal entries for recording the above transactions. 8

(b) **State with reason whether the following are capital or revenue expenditure:**
(i) Freight charges of ₹ 12,000 incurred for machinery purchased for ₹ 2,00,000.
(ii) ₹ 90,000 being expenditure incurred for well equipped labour welfare centre.
(iii) Compensation of ₹ 1,50,000 each paid to three employees who were retrenched.
(iv) Purchase of TV set for ₹ 30,000 to be installed in the reception hall. 1 x 4 = 4

(c) **The Revenue Account of a life insurance company shows the life assurance fund on 31st March, 2013 at ₹ 60,20,000 before taking into account the following items:**
(i) Claims covered under re-insurance ₹ 1,20,000.
(ii) Bonus utilized in reduction of life insurance premium ₹ 45,000.
(iii) Interest accrued on securities ₹ 82,600.
(iv) Outstanding premium ₹ 60,000.
(v) Claims intimated but not admitted ₹ 3,00,000.

What is the life assurance fund after taking into account the above omission? 4

Answer:

(a)

Journal Entries

Amount in Lakhs

Particulars		₹	₹
New Mains A/c (2) Replacement A/c (3) To, Bank A/c (Being replacement of the old main allocated between capital and reserve)	Dr. Dr.	14 46	 60
New Mains A/c To, Replacement A/c (Being cost of old material used in the new mains)	Dr.	1	 1
Bank A/c To, Replacement A/c (Being the amount realised from sale of old material)	Dr.	0.8	 0.8
Revenue A/c (2) To, Replacement A/c (Being balance of replacement account transferred to Revenue A/c) i.e. ₹ 46 lakh - (0.5 + 1 + 0.8) = ₹ 43.70	Dr.	43.70	 43.70
Auxiliary Main A/c To, Bank A/c To, Replacement A/c (Being construction of auxiliary main at a cost of ₹ 15.50 lakh including old material and worth ₹ 0.5 lakh)	Dr.	15.50	 15 0.50

WORKING NOTES

1. Calculation of Current Replacement Cost

	₹ in Lakhs
Cost of 4/5th of the old main [₹ 50 lakh x 4/5]	40
Add: Increase in cost (40 lakhs x 15/100)	6
Current Replacement Cost	**46**

2. Calculation of Charge to Revenue

Current Replacement Cost		46
Less: Sale of old material	0.8	
Material used in renewals	1.0	
Material used in auxiliary main	0.5	2.3
Charge to Revenue		43.7

3. Amount to be Capitalised on Replacement Of old Main

Cost of Replaced main	60
Less: Estimated Replacement Cost	46
Amount to be capitalized	**14**

4. Amount to be capitalised for Auxiliary Main

Replacement cost of 1/5 of old main	15.00
Add: Old materials used for renewals	0.50
	15.50

(b)

(i) Expenditure incurred towards freight charges for bringing the machinery to the location and till regular production is capital expenditure. Hence, the freight charge is to be capitalized.

(ii) Labour welfare centre is a permanent addition and therefore a capital expenditure.

(iii) Compensation to retrenched employees will not bring any permanent benefit and hence is revenue expenditure.

(iv) Television set purchased is a capital expenditure unless the person acquiring the same is a dealer of television sets.

(c)

Statement showing Life Assurance Fund as at 31st March, 2013

Particulars	Amount ₹	Amount ₹	Amount ₹
Balance of fund as on 31st March,2013			60,20,000
Add:			
Interest on securities		82,600	
Premium outstanding		60,000	1,42,600
			61,62,600
Less:			
Claim outstanding	3,00,000		
Less: Covered under Re-insurance	1,20,000	1,80,000	
Bonus in reduction of premium		45,000	2,25,000
Balance of (correct) Life Assurance Fund			**59,37,600**

Note: Bonus is nothing but the share of profit which is payable by the insurance company to the policyholders and Bonus in reduction of premium is applied to reduce further premium.

7.

(a) Mining Development Corporation Ltd. obtained a lease of coal field for 99 years from Mr. Landlord on the following terms from 1st January, 2008:

- **Mining Development Corporation will develop the land and will bear the cost of development.**
- **Royalties will be ₹ 2 per tonne of coal raised during the period.**
- **Minimum Rent will be ₹ 10,000 for the first year with an annual increase of ₹ 1,000 till it reaches ₹ 15,000.**
- **Short workings, if any, are recoverable within first three years only. Mining Development Corporation Ltd. developed the land at the cost or ₹ 2 crores and estimated the coal deposit of 20 lakh tones. It was decided to depreciate this expenditure on Depletion method of depreciation.**
- **The coal used by Mining Development Corporation Ltd. is as under:**

Year	Production in tones
2008	**1,000**
2009	**2,000**
2010	**10,000**
2011	**15,000**

You are required to prepare the following accounts in the books of Mining Development Corporation:

Royalties Account, Short working account, Landlord Account and Provision against Short working Account. **10**

(b) Calculate cash flow from investing activities of Major Limited for the year ended 31st March, 2013.

Particulars	Purchased (₹)	Sold (₹)
Investments	3,00,000	2,50,000
Goodwill	4,00,000	---
Machinery	5,00,000	8,00,000
Patents	---	2,00,000

Dividend received on shares held as investments ₹ 30,000
Interest received on debentures held as investments ₹ 20,000.
A plot of land acquired out of surplus funds for investment purposes (3 years ago) was let out for commercial use and the rent received during the year being ₹ 60,000. **6**

Answer:

(a)

Analytical Table

Year	Production (Tonnes)	Rate of Royalty	Royalty	Min Rent	Short workings Occurred	Short working recouped	Short working lapsed	Short working carried forward	Actual Payment
2008	1,000	2	2,000	10,000	8,000	-	-	8,000	10,000
2009	2,000	2	4,000	11,000	7,000	-	-	15,000	11,000
2010	10,000	2	20,000	12,000	-	8,000	7,000	-	12,000
2011	15,000	2	30,000	13,000	-	-	-	-	30,000

In the books of Mining Development Corporation
Royalty Account

Dr. **Cr.**

Date	Particulars	Amount (₹)	Date	Particulars	Amount (₹)
31.12.08	To, Land Lord A/c	2,000	31.12.08	By, Production A/c	2,000
31.12.09	To, Land Lord A/c	4,000	31.12.09	By, Production A/c	4,000
31.12.10	To ,Land Lord A/c	20,000	31.12.10	By, Production A/c	20,000
31.12.11	To, Land Lord A/c	30,000	31.12.11	By, Production A/c	30,000

Short working Account

Dr. **Cr.**

Date	Particulars	Amount (₹)	Date	Particulars	Amount (₹)
31.12.08	To, Land Lord A/c	8,000	31.12.08	By, Balance c/d	8,000
31.12.09	To ,Balance b/d	8,000	31.12.09	By, Balance c/d	15,000
31.12.09	To ,Land Lord A/c	7,000			
		15,000			15,000
31.12.10	To, Balance b/d	15,000	31.12.10	By, Landlord A/c	8,000
			31.12.10	By, Profit and Loss A/c (lapsed)	7,000
		15,000			15,000

Landlord Account

Dr. **Cr.**

Date	Particulars	Amount (₹)	Date	Particulars	Amount (₹)
31.12.08	To, Bank A/c	10,000	31.12.08	By, Royalty A/c	2,000
			31.12.08	By, Short working A/c	8,000
		10,000			10,000
31.12.09	To ,Bank A/c	11,000	31.12.09	By, Royalty A/c	4,000
			31.12.09	By, Short working A/c	7,000
		11,000			11,000
31.12.10	To, Short working A/c	8,000	31.12.10	By, Royalty A/c	20,000
31.12.10	To, Bank A/c	12,000			
		20,000			20,000
31.12.11	To ,Bank A/c	30,000	31.12.11	By, Royalty A/c	30,000

Note: Cost of the development of land ₹ 2 crores is not be considered as it is a capital expenditure. It has nothing to do with royalty accounts. Cost of ₹ 2 crores will be recovered from production by way of depreciation by the following depletion method of depreciation as given below.

$$\text{Depreciation per Tonne} = \frac{\text{Cost of Development of the land}}{\text{Quantity of Estimated Coal Deposit}}$$

$$= ₹\ 2 \text{ Crores} / 20 \text{ lakh tones} = ₹\ 10.00$$

Every year production account will be charged depreciation @ ₹ 10 per tonne of output production.

(b)

Calculation of Net Cash Flow from investing activities of Major Ltd. for the year 2012-13.

Particulars	₹	₹
Inflows of Cash:		
Sale proceeds of Investments	2,50,000	
Sales proceeds of Machinery	8,00,000	
Sale proceeds of Patents	2,00,000	
Interest received from Investments	20,000	
Dividend from Investments in shares	30,000	
Rent from let out Land	60,000	
		13,60,000
Less: Outflows of cash		
Purchase of Investments	3,00,000	
Purchase of Goodwill	4,00,000	
Purchase of Machinery	5,00,000	
		12,00,000
Net cash flow from Investing activity		1,60,000

8.

(a) **Mr. Dipankar a retail trader needs financial statements for the year ended 31.03.2013 for availing a bank loan. He gives you the following information regarding receipts and payments.**

(i) **Cash deposited into the bank account ₹ 1,05,000.**

(ii) **Dividend from companies deposited in bank account ₹ 5,000.**

(iii) **Tuition fees of doctor paid by cheque ₹ 15,000.**

(iv) **Rent for the year paid by cash ₹ 24,000.**

(v) **Cash collections from debtors ₹ 5,50,000.**

(vi) **Amounts paid to creditor ₹ 4,00,000 in cash and ₹ 1,00,000 by cheque.**

(vii) **Salary and wages paid in cash ₹ 36,000.**

(viii) **Office electricity paid by cheque ₹ 12,000.**

(ix) **General expenses incurred in cash ₹ 18,000.**

(x) **Drawing every month ₹ 6,000 by cash.**

(xi)

Particulars	31.03.2012	31.03.2013
Stock	3,20,000	4,40,000
Bank	55,000	38,000
Cash	10,000	12,000
Debtors	75,000	86,000
Creditors	48,000	70,000

Prepare his Trading & Profit and Loss Account for the year ended 31st March, 2013, and Balance Sheet as at 31.03.2013. **10**

(b) **Due to flood, business of Mr. Singh was dislocated from 01.04.2013 to 31.08.2013 (5 months). From the following details, calculate the amount of claim to be lodged in respect of loss of profit policy.**

Particulars	₹
Policy amount	1,25,000
Turnover from 01.04.2013 to 31.08.2013	2,40,000
Standing charges from 01.04.2013 to 31.08.2013	60,000
Turnover during 01.04.2012 to 31.03.2013	12,00,000
Gross profit ratio	10% on sales
Standing charges for the year 2012 - 13	84,000

The turnover for the year 2013-2014 was anticipated to increase by 10% over the turnover of the preceding year. **6**

Answer:

(a)

Cash A/c and Bank A/c

	Cash	Bank		Cash	Bank
To balance b/d	10,000	55,000	By Bank	1,05,000	
To Cash		1,05,000	By Drawings	72,000	
To Dividend		5,000	By Drawing (Tuition Fee)		15,000
To Debtors	5,50,000		By Rent	24,000	
To Sales (Cash Sales)	1,07,000		By Creditors	4,00,000	1,00,000
			By Salary & Wages	36,000	
			By Electricity		12,000
			By General Expenses	18,000	

			By Balance c/d	12,000	38,000
	6,67,000	1,65,000		6,67,000	1,65,000

Debtors A/c

Particulars	Amount (₹)	Particulars	Amount (₹)
To Balance b/d	75,000	By Cash A/c.	5,50,000
To Sales (credit)	5,61,000	By Balance c/d	86,000
	6,36,000		**6,36,000**

Creditor A/c

Particulars	Amount (₹)	Particulars	Amount (₹)
To Cash A/c.	4,00,000	By Balance b/d	48,000
To Bank A/c.	1,00,000	By Purchase A/c. (Credit) – Balancing figure	5,22,000
To Balance c/d	70,000		
	5,70,000		**5,70,000**

Trading & Profit and Loss Account for the year ended 31st March, 2013.

Particulars	₹	Particulars	₹
To Opening Stock	3,20,000	By Sales: Cash	1,07,000
To purchases	5,22,000	Credit	5,61,000
To Gross Profit	2,66,000	By Closing Stock	4,40,000
	11,08,000		11,08,000
To Rent	24,000	By Gross Profit	2,66,000
To Salaries & Wages	36,000	By Dividend	5,000
To Office electricity	12,000		
To General expenses	18,000		
To Net Profit	1,81,000		
	2,71,000		2,71,000

Balance Sheet as at 31.03.2012

Liabilities	31.03.2012	Assets	31.03.2012
Capital	4,12,000	Stock	3,20,000
Creditors	48,000	Debtors	75,000
		Bank	55,000
		Cash	10,000
	4,60,000		4,60,000

Balance Sheet as at 31.03.2013

Liabilities	31.03.2013	Assets	31.03.2013
Creditors	70,000	Stock	4,40,000
Capital	5,06,000*	Debtors	86,000
		Bank	38,000
		Cash	12,000
	5,76,000		5,76,000

* ₹ 4,12,000 + ₹ 1,81,000 – ₹ 72,000 – ₹ 15,000
[Opening Capital + Net Profit – Drawings – Doctor Fees]

(b)

Particulars	₹
Standard turnover per month (2012 – 13)	1,00,000
Add: Increase anticipated plus 10%	10,000
Expected turnover per month	1,10,000
Standard turnover for the period of dislocation (1,10,000 x 5)	5,50,000
Less: Actual turnover for the period of dislocation	2,40,000
Short sales	3,10,000
Gross profit on short sales @ 10%	31,000
Add: Increased cost of working	
Actual standard charges 2012 – 13 ₹ 84,000 (Per month 84,000 / 12 = 7,000)	
Standard charges for the period of dislocation (7,000 x 5 = 35,000)	
Actual standing charges incurred during the period of dislocation = ₹ 60,000	
Increase in cost of working during period of dislocation ₹ 60,000 – ₹ 35,000	25,000
Claim to be lodged	56,000

Note:

1. In absence of any information regarding Insured standing charges, Uninsured standing charges, Net profit etc. - increase in cost of working during the period of dislocation is determined in this manner.
2. Since the Annual Turnover is not mentioned the Average Clause is not applied.