INTERMEDIATE EXAMINATION

GROUP I

(SYLLABUS 2012)

SUGGESTED ANSWERS TO QUESTIONS

DECEMBER 2014

Paper-5: FINANCIAL ACCOUNTING

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

The figures in the margin on the right side indicate full marks.

This paper contains seven questions. All questions are compulsory, subject to instruction provided against each question. All working must form part of your answer.

1. Answer the following questions (Give workings): **2×10=20**

(a) A machine costing ₹ 13,75,000 is depreciated on straight line basis assuming 8 years working life and zero residual value. After third year machine's remaining useful life was reassessed at 7 years. Calculate the amount of depreciation charged for 4th year.

(b) Madhu purchased a machinery on hire purchase basis on 1st April, 2014. ₹ 75,000 was paid immediately and the remaining amount was to be paid in three annual instalments of ₹1,00,000 each. Interest rate is 15% per annum. Calculate the cash price.

(c) Gunnu and Chinu are partners. They are entitled for 9% interest on their capital contributions. The firm allowed ₹ 54,000 towards interest on capital to partners. Calculate the capital contribution of each partner if interest on Gunnu's capital is ₹13,500 more than the interest on Chinu's capital.

(d) State whether following transactions appear in Sales/Purchases Ledger Adjustment Account or not, when books are kept on self balancing ledger system:

(i) B/R discounted with bank for ₹ 15,000;

(ii) Old bad debts recovered ₹ 1,500;

(iii) Cash refunds to customers ₹ 4,500;

(iv) Provision made for bad debts ₹ 5,000.

(e) Ajay of Jaipur sent goods of ₹ 2,50,000 to Vijay of Mumbai on consignment. Ajay paid ₹8,500 as railway freight and ₹ 4,240 as insurance. 2% goods are damaged in the Vijay's godown due to normal circumstances. Vijay incurred cartage ₹ 5,140 and selling expenses ₹ 14,700. Calculate the value of stock of unsold 15% of goods sent to Vijay.

(f) The carrying amount of Plant and Machinery of X Limited on 31.3.2013 was ₹ 80 crores, where as the recoverable amount is ₹ 52 crores. The applicable Income Tax

rate is 40%. For Income Tax purposes, the written down value is ₹ 40 crores. Compute the amount of Deferred tax asset/liability on Account of impairment as per AS 28.

(g) An IT enabled company supplied a software to a client at a fee of ₹ 50 lakhs during the year ended 30-09-2014 and also transferred the ownership. In November 2014, the Management of the company raised a supplementary bill on it's client for ₹ 10 lakhs, stating about additional features of the software supplied. While finalising the Accounts for the year ended 30-09-2014 in December 2014, how would the amount of ₹ 10 lakhs dealt?

(h) ₹ 3,25,000 is total cost of 6500 units, consignor's expenses are ₹ 65,000, units lost in transit was 700 units and consignee's non-recurring expenses amounted to ₹ 4,300, what will be the value of stock?

(i) Human Life Insurance Company provides the following information:

Life Insurance Fund on 31st March, 2014	**₹ 155 Lakhs**
Net liability on 31st March as per actuarial valuation	**₹ 132 Lakhs**
Interim Bonus paid to Policy holders during inter valuation period	**₹ 11 Lakhs**

Prepare Valuation Balance Sheet.

(j) A loan account remains out of order as on date of Balance Sheet of MODERN Bank. The account has been classified as Doubtful asset (upto 1 year). Details of the account are as under:

Outstanding	**₹ 6,73,000**
ECGC Coverage	**25% (limited to ₹ 1,00,000)**
Value of security held	**₹ 1,50,000**

Compute the necessary provision to be made by the Bank in respect of this particular account.

Answer: 1.

		₹
(a)	Cost of Machine	13,75,000
	Less: Depreciation for first third years period = (1375000/8) x 3 =	5,15,625
	Written down value at the end of third year	8,59,375

Remaining useful life as per initial estimate 5 years and as per revised estimate 7 years.
Depreciation for the fourth year onwards = 8,59,375/7 = ₹ 1,22,768

(b) Calculation of cash price of Machine

Balance of cash price at the time of III installment

= 100000 - [100000 x (15/115)] = 100000 -13043 = 86957

Balance of cash price at the time of II instilment

= (100000 + 86957) - [186957 × (15/115)]

= 186957 - 24386 = 162571

Balance of cash price at the time of I instilment

= (100000 + 162571) - [262571 × (15/115)]

= 262571-34248 = 228323

Hence, Total cash price = 228323 + down payment 75000 = ₹ 303323

(c) Let interest on Chinu's capital 'x' then interest on Gunu's capital will be x + 13500

Total interest = x + 13500 + x = 54000

or x = $\frac{54000-13500}{2}$ = 20250

Interest on Gunu's capital (x + 13500) = 20250 + 13500 = ₹ 33750 and her capital

= $\frac{33750}{9\%}$ = ₹ 375000

Interest on Chinu's capital (x) = ₹ 20250 and his capital = $\frac{20250}{9\%}$ = ₹ 2,25,000

(d)

Items will appear in S.L. Adj. A/c	Items will appear in P.L. Adj. A/c	Items will not appear
(iii) Cash refunds to customers ₹ 4,500		(i) B/R discounted with bank for ₹ 15000 (ii) Old bad debts recovered ₹ 1500 (iv) Provision made for bad debts ₹ 5000

(e)

	₹
Valuation of Closing Stock with Agent:	
₹ 250000 X $\frac{15\%}{98\%}$	38,265
Share in Expenses incurred by Ajay 8500 + 4240 = 12740 × $\frac{15}{98}$ =	1,950
Cartage paid by Vijay = 5140 x 15/98 =	787
Total	41,002

Alternative Answer

Particulars	₹
Valuation of Closing Stock with Agent	
Goods sent on consigment	2,50,000
Share in Expenses incurred by Ajay (8,500 + 4,240)	12,740
	2,62,740
Cartage paid by Vijay	5,140
Total	2,67,880

After Normal loss cost will be = 2,50,000 x 98% = ₹ 2,45,000
Stock will be maintain is 15% on goods sent = 2,50,000 x 15% = 37,500
So, Value of Unsold stock will be = 37,500 x (2,67,880 /2,45,000) = ₹41,002

(f)

Particulars	**Amount (₹ in Crores)**
Impairment loss as per Income Tax purpose ₹(80-40)	40
Tax effect on above [40% of ₹40 Crores]	16
Again, Impairment Loss ₹(80-52) Crores as per Accounting purpose	28
Income Tax effect on Impairment Loss [40% of ₹28 Crores]	11.2
Net Deferred Tax Liability	**4.8**

(g) As per As -9 revenue should be recognised only when there is no uncertainty about its ultimate collection. Revenue from software to be recognised on delivery. In this case delivery and transfer has been made by 30-9-2014 and the Revenue realised was ₹ 50 lakhs. About the additional bill of ₹10 lakhs., it cannot be concluded with certainty that the same will be realised in full or part or not at all. Hence the same cannot be considered as Revenue at this stage.

(h) Cost of 6500 units = Total cost + Consigner expenses = 3,25,000 + 65,000 = ₹ 3,90,000

Cost of 700 units = (₹ 3,90,000 ÷ 6,500) × 700 = ₹42,000

Value of closing stock = 6500 unit cost price – Cost of units lost in transit

= ₹3,90,000 - ₹42,000	= ₹ 3,48,000
Add: Non-recurring expenses	= ₹ 4,300
Total cost price of 5800 units	= ₹ 3,52,300

(i) **Human Life Insurance Co.**
Valuation Balance sheet as at 31st March, 2014

₹ in lakhs

Liability	Amount ₹	Assets	Amount ₹
To Net Liability as per actuarial valuation To Surplus	132 23	By Life Insurance Fund	155
	155		155

(j) **COMPUTATION OF PROVISION**

	₹
Doubtful Assets (upto 1 year)	6,73,000
Less: Value of security (excluding ECGC cover)	(1,50,000)
	5,23,000
Less: ECGC coverage (limited to ₹ 1,00,000)	(1,00,000)
Unsecured portion	4,23,000
Provision: for unsecured portion @ 100% on ₹ 4,23,000	4,23,000
for secured portion @ 25% on ₹ 1,50,000	37,500

Total provision to be made = ₹(4,23,000 + 37,500) = ₹4,60,500.

2. Answer *any two* questions: 4×2=8

(a) Indicate whether the following items should be treated as ordinary activities, exceptional items arising out of ordinary activities or prior period items within the terms of AS-5:

(i) Cost ₹ 15,00,000 incurred in terminating production at one of the company's factories.

(ii) Currency exchange surplus accounting to ₹ 15,000 arising on remittance from an overseas depot.

(iii) An extra ₹ 2,00,000 contributions By the company to the employee's pension fund.

(iv) Profit of ₹ 3,00,000 on sale of machinery written-off in a previous year when production of the particular product ceased.

(v) Provision for an abnormally large bad debt of₹ 10,00,000 arising in a trading contract.

[The turnover of the company is ₹ 1,20,00,000 and profits ₹ 20,00,000.] 4

(b) Pass necessary journal entries to rectify the following errors assuming that the errors were detected after the preparation of final accounts:

(i) Return inward book was undercast by ₹ 18,000.

(ii) Goods purchased for proprietor's use for ₹ 10,000 debited to purchase account.

(iii) ₹ 5,200 paid for freight on machinery was debited to freight account.

(iv) No adjustment entry Was passed for an amount of ₹15,000 relating to outstanding rent.

(v) Furniture of ₹13,000 purchased from Chandra Furniture House was entered in purchase book.

(vi) ₹ 10,000 received from Mohan has been credited to Sohan. 4

(c) From the following particulars, prepare the Bank Reconciliation Statement of Shri Krishan as on 31st March,

(i) Balance as per Pass Book is ₹ 10,000.

(ii) Bank collected a cheque of ₹ 500 on behalf of Shri Krishan but wrongly credited it to Shri Kishan's A/c (another customer).

(iii) Bank recorded a Cash deposit of ₹ 1,589 as ₹ 1,598.

(iv) Withdrawal column of the Pass Book undercast by ₹ 100.

(v) The credit balance of ₹ 1,500 as on page 5 of the Pass Book was recorded on page 6 as the debit balance.

(vi) The payment of a cheque of ₹ 350 was recorded twice in the Pass Book.

(vii) The Pass Book showed a credit for a cheque of ₹1,000 deposited by Shri Kishan (another customer of the Bank). 4

Answer: 2. (a)

(1) This is an exceptional item on account of size and arises from ordinary activities of the company. This should be separately disclosed.

(2) This surplus should be treated as part of the profit of the year from ordinary activities, since the amount is not material.

(3) The amount of ₹ 2,00,000 is stated to be 'extra' contribution, and it is material. It should, therefore, be disclosed as an exceptional item.

(4) The profit does not call for a prior period adjustment since there is no fundamental error. This should be disclosed separately as an exceptional item on account of its size and incidence.

(5) This loss arising out of ordinary activities, but since the amount is large it should be shown as an exceptional item.

Answer: 2. (b)

Journal of ……..

Particulars			₹	₹
(i)	Profit and Loss Adjustment A/c	Dr.	18000	
	To Suspense A/c			18000
(ii)	Capital (Drawings) A/c	Dr.	10000	
	To Profit and Loss Adjustment A/c			10000
(iii)	Machinery A/c	Dr.	5200	
	To Profit and Loss Adjustment A/c			5200
(iv)	Profit & Loss Adj. A/c	Dr.	15000	
	To Outstanding Rent A/c			15000
(v)	Furniture A/c	Dr.	13000	
	To Profit and Loss Adjustment A/c			13000
(vi)	Sohan's A/c	Dr.	10000	
	To Mohan's A/c			10000

Answer: 2. (c)

BANK RECONCILIATION STATEMENT AS AT 31 ST MARCH

Particulars			**Plus (₹)**	**Minus (₹)**
A.	Credit Balance as per Pass Book			10,000
B.	Add:	(a) Cheque wrongly credited to another customers A/c	500	
		(b) Error in carrying forward	3,000	
		(c) Cheque recorded twice	350	3,850
				13,850
C.	Less:	(a) Excess credit for Cash Deposit	9	
		(b) Under casting of withdrawal column	100	
		(c) Wrong credit	1,000	1,109
D.	Debit Balance as per Cash Book			12,741

3. Answer *any two* questions: 12×2=24

(a) A company writes off depreciation at 10% p.a, on the diminishing balance. On 1st January, 2011 the machinery account showed a balance of ₹1,49,000. It was discovered in 2011 that—

(i) A heavy repairs effected to plant and machinery account (completed on 30th June, 2009), were debited to the machinery. The amount was ₹ 15,000; and

(ii) A machine cost ₹6,000 was entered in the purchases on 1st October 2009. The expenses on installation, ₹400 were debited to General Expenses Account. Necessary corrections were to be made in 2011. On 30th June 2011, a machine which had cost ₹ 20,000 on 1st January, 2009 was disposed of for ₹ 15,000 and a machine costing ₹ 30,000 was installed on the same date, the expenses on installing the same being ₹ 500.

Show Machinery Account for the year ended 31st December, 2011. Please show your working in detail. 12

(b) Doll and Dolly are in partnership sharing profits and losses equally. They keep their books by Single Entry System. No ready figures are available for the total sales but they maintain a steady gross profit rate of 25% on sales.

An abstract of their cash transactions for the year ended 30th June, 2011 is given below:

Receipts	₹	Payments	₹
Cash in hand	10,800	Salaries	22,000
Receipts from Customers	2,70,000	Rent	4,400
Cash Sales	32,000	Advertising	1,800
		Printing	1,600
		General Expenses	19,100
		Payment to Trade Creditors	2,24,000
		Doll's Drawings	4,000
		Cash in hand	35,900
	3,12,800		3,12,800

Following balances are available from their books as on 30th June, 2010 and 30th June, 2011.

	As on 30-6-2010 ₹	As on 30-6-2011 ₹
Stock in Trade	44,000	50,000
Sundry Debtors	?	70,000
Sundry Creditors	46,800	37,000
Furniture	6,000	?

Other Information:

(i) Discount allowed, ₹ 2,800.

(ii) Discount earned, ₹ 2,400.

(iii) Outstanding Printing, ₹ 500.

(iv) Capital of Doll as on 30th June, 2010 was ₹ 4,000 more than Capital of Dolly.

(v) Provide depreciation of Furniture @ 10% p.a.

From the above you are required to prepare in the books of Doll and Dolly:

(i) The Trading and Profit and Loss Account for the year ended 30th June, 2011 and

(ii) The Balance Sheet as on the date. 8+4=12

(c) TUSHAR Ltd. with its Head Office in Delhi invoices goods to its Branches at Mumbai and Kolkata at 20% less than the catalogue price which is cost *plus* 50% with instructions that cash sales are to be made at invoice price and credit sales at catalogue price less discount at 15% on prompt payments. Provision is to be made for discount to be allowed to debtors, at year end on the basis of year's trend of prompt payments. All branch expenses are paid by the Head Office and all branch collections are remitted daily to Head Office.

1. Opening Stock At Branch at its cost ₹ 12,000.
2. Opening Branch Debtors ₹ 10,000.
3. Goods Sent to branch (at cost to H.O.) ₹ 1,10,000.

4. **Goods received by Branch till close of the year ₹ 1,27,000.**
5. **Transfer from Kolkata branch to Mumbai branch at catalogue price ₹ 75,000.**
6. **Transfer to Kolkata branch from Mumbai branch at catalogue price ₹ 30,000.**
7. **Goods purchased by Mumbai branch from local suppliers (cost) ₹ 30,000. Closing stock in hand at branch out of local purchases (cost) ₹ 6,000.**
8. **Cash Sales ₹ 74,800.**
9. **Credit Sales ₹ 1,45,000.**
10. **Goods returned by Credit Customers to branch ₹ 30,000.**
11. **Goods returned by Credit Customers directly to H.O. ₹ 15,000.**
12. **Goods returned by Branch to H.O. ₹ 24,000.**
13. **Cash remitted by Credit Customers directly to Branch ₹ 45,635.**
14. **Cash remitted by Credit Customers directly to H.O. ₹ 40,000.**
15. **Discount Allowed to Debtors ₹ 13,365.**
16. **Loss of Goods by fire (at invoice price) ₹ 3,000 against which 80% of cost was recovered from the insurance Company.**
17. **Loss of goods at Branch through normal pilferage (at catalogue price) ₹ 3,000.**
18. **Branch Expenses: Paid ₹ 9,000, Outstanding ₹ 741.**
19. **Branch Manager is entitled to a commission @ 6% of net profits after charging such commission.**

Required: **Prepare Mumbai Branch Stock Account, Mumbai Branch adjustment A/c, Mumbai Branch Expenses A/c and Mumbai Branch Profit & Loss A/c and Mubmai Branch Debtors A/c under Stock & Debtors Method.** **12**

Answer: 3. (a)

Machinery Account

Date	Particulars	₹	Date	Particulars	₹
2011			2011		
Jan. 1	To Balance b/d	1,49,000	Jan.1	By Profit & Loss A/c (Machinery Repairs (2)	12,825
Jan. 1	To Profit & Loss A/c (Machinery purchased on 1-10-2009)(1)	5,616	June.30	By Bank	15,000
Jan.30	To Bank	30,500	June.30	By Depreciation for ½ year on the machine sold (3)	810
			June.30	By Profit & Loss A/c (Loss on sale of Machinery)(4)	390
			Dec.31	By Depreciation A/c (5)	14,084
				By Balance c/d	1,42,007
		1,85,116			1,85,116

Working Note: ₹

1. Machinery purchased on 1 -10-2009
   (₹6,000 + ₹400 Installation Expenses) 6,400

Less: Depreciation for 3 months	160
	6,240
Less: Depreciation for 2010	624
Amount debited to Machinery A/c	
And Credited to P. & L. A/c	**5,616**

2. Machine Account wrongly debited for repairs

On 30-6-2009	15,000
Less: Depreciation for 6 months	750
	14,250
Less: Depreciation for 2010	1,425
Amount credited to Machinery A/c	
and debited to P. & L. A/c	**12,825**

3.

Book value of Machinery on 1-1-2009	20,000
Less: Depreciation for 2009	2,000
	18,000
Less: Depreciation for 2010	1,800
Value on 1-1-2011	16,200
Depreciation for 6 months	810

4.

Book value of machine on 30-6-2011	15,390
Less: Sale price	15,000
Loss on sale of machinery	**390**

5. Depreciation:

10% on ₹1,25,591 (i,e., ₹1,49,000 + ₹5,616 – ₹12,825 - ₹16,200)	12,559
10% on ₹ 30,500 for ½ year	1,525
	14,084

If any student takes <u>heavy repairs as capital</u>, the alternative answer will be:

Dr. **Machinery Account** **Cr.**

Date	Particulars	₹	Date	Particulars	₹
2011 Jan 1	To Balance b/d	1,49,000	2011 June30	By Bank A/c	30,000
Jan 1	To, Profit and Loss A/c (machinery purchased)	5,616	June 30	By Depreciation for ½ year on the machine sold	810
Jan 30	To, Bank	30,500	June 30	By Profit and Loss A/c (Loss on Sale of Machinery)	390
			Dec 31	By Depreciation A/c	15,367
				By Balance c/d	1,38,549
		1,85,116			**1,85,116**

Calculation of Depreciation:

₹ (1,49,000 +5,616 – 16,200) x 10% = 13,842

₹ 10% on 30,500 for ½ year = 1,525

15,367

Note: As per AS - 10 any type of heavy repair may result in increased in expected future benefit flowing out of that particular asset and the expense in that case is to be capitalized.

Answer: 3. (b)

In the Books of Doll and Dolly

Trading and Profit and Loss Account

Particulars	₹	**Particulars**	₹
To Opening Stock	44,000	By sales : Cash 32,000	
To Purchase (Credit) (1)	2,16,600	Credit 2,48,800	2,80,800
To Gross Profit c/d	70,200	By Closing Stock	50,000
	3,30,800		3,30,800
To Salaries	22,000	By Gross profit b/d	70,200
To Rent	4,400	By Discount earned	2,400
To Advertisement	1,800		
To Printing 1,600			
Add: Outstanding 500	2,100		
To General Expenses	19,100		
To Discount Allowed	2,800		
To Depreciation @ 10% on Furniture	600		
To Net profit transferred to			
Capital Accounts:			
Doll - ½ Share 9,900			
Dolly - ½ Share 9,900	19,800		
	72,600		**72,600**

Balance Sheet As at 30-6-2011

Liabilities		₹	**Assets**		₹
Printing Outstanding		500	Cash in Hand		35,900
Sundry Creditors		37,000	Sundry Debtors		70,000
Doll's Capital A/c as on 1-7-2010 (4)	56,000		Closing Stock		50,000
Add: Net Profit	9,900		Furniture	6,000	
	65, 900		Less:		
Less: Drawing	4,000	61,900	Depreciation 10%	600	
					5,400
Dolly's Capital A/c as on 1-7-2010 (4)	52,000				
Add: Net Profit	9,900	61,900			
		1,61,300			**1,61,300**

Working Notes:

(1) Calculation of Credit Purchases

Sundry Creditors Account

Particulars	₹	Particulars	₹
To Cash	2,24,000	By Balance b/d	46,800
To Discount	2,400	By Purchases (Balancing Figure)	2,16,600
To Balance c/d	37,000	(Credit Purchase)	
	2,63,400		2,63,400

(2) Calculation of Credit Sales

Opening Stock	44,000
Add: Credit Purchases	<u>2,16,600</u>
	2,60,600
Less: Closing Stock	<u>50,000</u>
Cost of goods sold	2,10,600
Add: Gross Profit 331/3 % on cost of goods which is	
Equivalent to 25% of sales	<u>70,200</u>
Total Sales	2,80,800
Less: Cash Sales	<u>32,000</u>
Credit Sales	<u>2,48,800</u>

(3) Calculation of Debtors as on 1-7-2010

Sundry Debtors Account

Particulars	₹	Particulars	₹
To Balance b/d (Balance figure)	94,000	By Cash	2,70,000
To Credit Sales	2,48,800	By Discount	2,800
		By Balance c/d	70,000
	3,42,800		**3,42,800**

(4) Statement of Affairs as at 1-7-2010

Liabilities		₹	Assets	₹
Sundry Creditors		46,800	Cash in Hand	10,800
Combined Capital (Balancing figure)			Sundry Debtors (3)	94,000
Doll's Capital			Stock-in-Trade	44,000
(₹ 4,000 more than Dolly's capital)	56,000		Furniture	6,000
Dolly's Capital	<u>52,000</u>	1,08,000		
		1,54,800		**1,54,800**

Calculation for Doll and Dolly's Capital:

Let Dolly's capital was = x and Doll's Capital was (x+4,000).

The combined capital of Doll and Dolly which was derived from Statement of Affairs as on 01.07.2010 was ₹ 1,08,000.

Therefore,

(x+4,000)+x = 1,08,000
Or, 2x + 4,000 = 1,08,000
Or, 2x = 1,08,000 - 4,000
Or, 2x = 1,04,000
Or, x = 1,04,000/2 = 52,000
So, Dolly's Capital was ₹ 52,000
And Doll's Capital was = (₹ 52,000 +₹ 4,000) =₹ 56,000

Answer: 3. (c)

Cost Price Structure

		₹
A.	Cost Price	100
B.	*Add*: Profit	20
C.	Invoice Price (A + B)	120
D.	*Add*: Extra Profit	30
E.	Catalogue Price (C + D)	150

Dr. **MUMBAI BRANCH STOCK ACCOUNT** ***Cr.***

Particulars	₹	Particulars	₹
To Balance b/d	12,000	By Goods sent to Branch A/c [₹ 30,000 x 120/150]	24,000
To Goods sent to Branch A/c [₹ 1,10,000 + 20%]	1,32,000	By Branch Cash A/c (Cash Sales)	74,800
To Goods sent to Branch A/c [₹ 75,000x120/150]	60,000	By Branch Debtors A/c (Credit Sales)	1,45,000
To Branch Debtors A/c (Returns)	30,000	By Goods sent to Branch A/c (Returns)	24,000
To Branch Debtors A/c (Returns)	15,000		
To Branch Cash A/c [local purchases]	30,000	By Goods sent to Branch A/c (Returns) [₹ 15,000x120/150]	12,000
To Branch Adjustment A/c [Load on local purchases]	6,000	By Branch Adjustment A/c (Load)	500
		By Branch Profit and Loss A/c (Stock destroyed by fire)	2,500
To Branch Adjustment A/c (Excess of catalogue price of Net Credit Sales over invoice price) (₹ 1,45,000 -₹ 30,000 -15,000) x 30/150]	20,000	By Branch Adjustment A/c [Invoice Price of Normal Loss] [₹ 3,000x 120/150]	2,400
		By Balance c/d :	
		Stock out of local purchases	7,200
		Stock in transit from H.O. [₹1,32,000 - ₹1,27,000]	5,000
		Stock in hand from H.O.(B. f.)	7,600
	3,05,000		**3,05,000**

Dr. **MUMBAI BRANCH ADJUSTMENT ACCOUNT** **Cr.**

Particulars	₹	Particulars	₹
To Stock Reserve A/c		By Stock Reserve A/c	
[₹ 19,800x20/120]	3,300	[₹ 12,000x20/120]	2,000
To Branch Stock A/c		By Branch Stock A/c	6,000

	[load on abnormal Loss]	500		[Loading on local purchases]	
To	Branch Stock A/c	2,400	By	Branch Stock A/c	20,000
	[Invoice Price of Normal Loss]			(Excess of catalogue price of Net Credit Sales over invoice price)	
To	Branch Profit and Loss A/c				
	(Gross profit)	43,800	By	Goods sent to Branch A/c ; [Load on Net Goods sent] [₹ 1,32,000 + ₹ 60,000 - ₹ 24,000 - ₹24,000-12,000] [₹ 1,32,000x20/120]	22,000
		50,000			**50,000**

Dr. **MUMBAI BRANCH EXPENSES ACCOUNT** ***Cr.***

Particulars	₹	Particulars	₹
To Branch Cash A/c	9,741	By Branch Profit & Loss A/c	23,106
To Discount Allowed A/c	13,365		
	23,106		23,106

Dr. **MUMBAI BRANCH PROFIT AND LOSS ACCOUNT** ***Cr.***

Particulars	₹	Particulars	₹
To Branch Expenses A/c	23,106	By Branch Adjustment A/c	43,800
To Branch Stock A/c	2,500	(Gross Profit)	
(Cost of Loss by fire)		By Insurance Claim	2000
To Provision for Discount A/c	1,485		
To Manager's Commission	1,059		
To General Profit and Loss A/c	17,650		
[₹ 18,709 x 6/106]			
	45,800		**45,800**

Dr. **MUMBAI BRANCH DEBTORS ACCOUNT** ***Cr.***

Particulars	₹	Particulars	₹
To Balance b/d	10,000	By Branch Stock A/c	30,000
To Branch Stock A/c		By Goods sent to Branch A/c	15,000
(Credit Sales)	1,45,000	By Branch Cash/Bank A/c	45,635
		By Cash/Bank A/c	40,000
		By Discount Allowed A/c	13,365
		By Balance c/d (b.f.)	11,000
	1,55,000		**1,55,000**

Working Note: Computation of Provision for discount

(a) Prompt paying debtors who availed of discount = ₹ 13,365 x 100/15 = 89,100

(b) Total debtors who made payment during the year = ₹ 13,365 + 85,635 = ₹ 99,000

(c) Proportion of prompt payers to those who made payment = (89,100/99,000) x 100 = 90%

(d) Likely Prompt paying debtors included in closing Debtors = 90% of ₹ 11,000 = ₹ 9,900

(e) Provision for discount on the closing balance = 15% of ₹ 9,900 = ₹ 1,485

4. Answer *any two* questions: 4×2=8

(a) Following information is available from the books of a trader from January 1 to March 31, 2011.

(i) Total Sales amounted to ₹ 60,000 including the sale of old furniture for ₹ 1,200 (Book Value ₹ 3,500). The total Cash Sales were 80% less than the total Credit Sales.

(ii) Cash collection from debtors amounted to 60% of the aggregate of the opening debtors and the Credit Sales for the period. Debtors were allowed Cash discounts for ₹ 2,600.

(iii) Bills Receivable drawn during the three months totalled ₹6,000 of which bills amounting to ₹ 3,000 were endorsed in favour of suppliers. Out of these endorsed B/R, a B/R for ₹ 600 was dishonoured for non-payment as the party became insolvent, his estate realizing nothing.

(iv) Cheques received from Sundry Customers for ₹ 6,000 were dishonoured; a sum of ₹ 500 is irrecoverable, Bad Debts written off in the earlier years realized ₹2,500.

(v) Sundry Debtors, as on 1st January 2011, stood at ₹ 40,000.

You are required to show the Debtors Ledger Adjustments Accounts in the General Ledger. 4

(b) Prepare Total Creditors Account for the year ended on 31.03.2013 from the data given below:

	₹
Creditors Balance on 01.04.2012	**38,000**
Credit Purchases during the year	**2,67,000**
Bills payable accepted	**62,000**
Cash paid to Creditors	**1,37,000**
B/R endorsed to creditors	**16,000**
Endorsed B/R dishonoured	**3,000**
B/P dishonoured	**2,000**
Purchase returns	**11,000**
Discount received	**6,000**
Transfer from Debtors ledger	**7,000**

(c) PCT Ltd. maintains self-balancing ledgers. On 31st March, 2014 the accountant of the company located the following errors in the books of account:

(i) An amount of 8,700 received from customer Meena was credited to Meenu, another customer.

(ii) The sales book for December, 2013 was undercast by ₹ 1,000.

(iii) Goods invoiced at 15,600 were returned to supplier, M/s BPO Ltd., but no entry was made in the books for this return made on 28th December, 2013.

Passs the necessary Journal entries to rectify the above mentioned errors. 4

Answer: 4. (a)

In General Ledger
Debtors Ledger Adjustment Account

Dr. **Cr.**

Particulars	₹	Particulars	₹
To Balance b/d	40,000	By General Ledger Adjustment A/c: (In Sales Ledger) - Cash (W.N 2) - Discount	 53,400 2,600
To General Ledger Adjustment A/c. (In Sales Ledger) -Sales (W.N 1)	49,000		
To Creditors A/c (B. R. dishonoured)	600	By Bad Debts (₹ 500 + ₹ 600)	1,100
To Bank (Cheques dishonoured)	6,000	By B/R	6,000
		By Balance c/d	32,500
	95,600		**95,600**

Workings:

(1) Computation of Credit Sales:
As per question Cash Sales were 80% less than credit sales. So, if credit sales are ₹100, cash sales will be ₹20.
So, Total sales (cash + credit) will be ₹120. Total Sales ₹ (60,000 -1,200) = ₹ 58,800
So, Amount of credit sales will be (58,800 x 100)/120 = ₹49,000

(2) Cash Received
Cash Received is 60% of opening Debtors +Credit Sales i.e. ₹ (40,000+49,000) = ₹ 89,000.
So, Cash received = ₹ 89,000 x 60/100 = ₹ 53,400

Answer: 4. (b)

Total Creditors Account - For the year ended 31-03-2013

Date	Particulars	₹	Date	Particulars	₹
31-03-2013	To Bills payable accepted	62,000	01-04-2013	By Balance b/d	38,000
	To Cash paid to creditors	1,37,000	31-03-2013	By Purchases (Credit)	2,67,000
	To B/R endorsed	16,000		By Endorsed B/R Dishonored	3,000
	To Purchase returns	11,000		By B/P Dishonoured	2,000
	To Discount received	6,000			
	To Transfer from debtors Ledger	7,000			
	To Balance c/d (Bal. fig.)	71,000			
		3,10,000			**3,10,000**

4. (c)

Date	Particulars	L.F.	(₹)	(₹)
(i)	Meena (In Sales/Debtors Ledger) Dr. To Meenu (In Sales/Debtors Ledger) (Being amount received from Meenu was wrongly credited to Meena, now rectified)		8,700	 8,700
(ii)	(a) Suspense A/c (In Sales/Debtors Ledger) Dr. To Sales A/c(In General Ledger)		1,000	 1,000
	(b) Sales/Debtors Ledger Adjustment A/c (In General Ledger) Dr.		1,000	

	To General Ledger Adjustment A/c (In Sales/Debtors Ledger) (Being rectification of the error resulting from under casting of the Sales Book)			1,000
(iii)	(a) M/s. BPO Ltd. A/c (In Creditors/Bought Ledger Dr.		15,600	
	To Purchase Returns A/c (In General Ledger)			15,600
	(b) Creditors/Bought Ledger Adjustment A/c Dr. (In General Ledger)		15,600	
	To General Ledger Adjustment A/c (In Creditors/Bought Ledger) (Being goods returned to supplier not recorded earlier, now recorded)			15,600

5. Answer *any two* questions: 4x2=8

(a) On 25th September, 2013, PRARTHNA Advertising Limited obtained advertisement rights to World Cup Hockey Tournament to be held in Nov./Dec, 2013 for ₹ 520 lakhs.

They furnish the following information:

(i) The company obtained the advertisements for 70% of available time for ₹ 700 lakhs by 30th September, 2013.

(ii) For the balance time they got bookings in October, 2013 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. 2013 and balance 60% appeared in the month of December, 2013.

Your are required to calculate the amount of profit/loss to be recognized for the month November and December, 2013 as per Accounting Standard-9. 4

(b) Priyanshu Constructions obtained a contract for completion of a big factory building. The following details are available in the records kept the year ended 31st March, 2014:

Particulars	₹ in crores
Total Contract Price	45
Works Certified	23
Works not Certified	6
Estimated further cost	21
Progress payment received	20
Progress payment to be received	6

The company seeks your advice and assistance in presentation of accounts keeping in view the requirements of AS-7 "Accounting for Construction Contract". 4

(c) Write a note on Internally Generated Computer Software. 4

Answer: 5. (a)

AS-9	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.

Advice	In the given problem, 40% of the advertisement appeared before the public in November, 2013 and balance 60% in December, 2013.

CALCULATION OF TOTAL PROFIT

₹ in lakhs

Advertisement for 70% of available time obtained by 30th September, 2013	700
Advertisement for 30% of available time obtained in by October, 2013	240
Total	940
Less: Cost of advertisement rights	(520)
Profit	420

The profit amounting ₹ 420 lakhs should be apportioned in the ratio of 40:60 for the months of November and December, 2013. Thus, the company should recognise ₹ 168 lakhs (i.e. ₹ 420 lakhs × 40%) in November, 2013 and rest ₹ 252 lakhs (i.e. ₹ 420 lakhs × 60%) in December, 2013.

Answer: 5. (b)

As per AS – 7 'Construction Contract', when it is probable that contract costs will exceed the total revenue, the expected loss should be immediately recognised as an expense. The amount of such a loss is determined irrespective of (a) Whether or not work has commenced on the contract, (b) the stage of completion of contract activity as per AS – 7.

Computation of Anticipated or Foreseeable Loss

Particulars	**₹ in crores**
Cost of Total Contract:	
Work certified	23
Add: Work not certified	6
Add: Estimated further cost to completion	21
	50
Less: Contract Price	45
Anticipated / Foreseeable Loss	5

Computation of percentage of completion:

[Work-in-progress/ Cost of Total Contract] × 100 = $\frac{(23+6)}{50} \times 100 = 58\%$

Recognition of Contract Revenue:

Total Contract Price × 58% = ₹(45 × 58%) crores = ₹26.10 crores.
Current year's loss = ₹(29 – 26.10) crores =₹ 2.9 crores.

Provision to be made for balance of the anticipated loss i.e. ₹(5 – 2.9) crores = ₹2.1 crores.

Therefore, anticipated/foreseeable loss amounting to ₹5 crores should be immediately recognised in the Profit and Loss account.

Answer: 5. (c)

Internally Generated Computer Software:

Internally generated computer software for internal use is developed or modified internally by the enterprise solely to meet the needs of the enterprise and at no stage it is planned to sell it.

The stages of development of internally generated software may be categorized into the following two phases:

(i) Preliminary project stage, i.e., the research phase.

(ii) Development stage.

(i) Preliminary project stage, i.e., the research phase:

At the preliminary project the internally generated software should not be recognized as on assets. Expenditure incurred in the preliminary project stage should be recognized as an expense when it is incurred. The reason for such a treatment is that at this stage of the software project an enterprise cannot demonstrate that an asset exists from which future economic benefits are probable.

(ii) Development stage.

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 function needed.

6. Answer *any two* questions: 8×2=16

(a) Jaipur Investment Ltd. hold 1,000 15 per cent Debentures of ₹100 each in Udaipur Industries Ltd. as on 1st April, 2010, at a cost of ₹ 1,05,000. Interest is payable on 30th June and 31st December each year. On 1st May, 2010, 500 Debentures are purchased cum-interest at ₹ 53,500. On 1st November, 2010, 600 Debentures are sold ex-interest at ₹ 57,300. On 30th November, 2010, 400 debentures are purchased ex-interest at ₹ 38,400. On 31st December, 2010, 400 Debentures are sold cum-interest for ₹ 55,000.

Prepare Investment Account valuing holding on 31st March, 2011 at cost (applying FIFO method). 8

(b) There was a serious fire in the premises of M/s Fortunate on 1st September, 2011. Their business activities were interrupted until 31st December, 2011, when normal trading conditions were re-established. M/s Fortunate are insured under the loss of profit policy for ₹ 42,000 the period of indemnity being six months.

You are able to ascertain the following information:

(i) The net profit for the year ended 31st December, 2010 was ₹ 20,000

(ii) The annual insurable standing charges amounted to ₹ 30,000 of which ₹ 2,000 were not included in the definition of insured standing charge under the policy.

(iii) The additional cost of working in order to mitigate the damage caused by the fire amounted to ₹ 600, and, but for this expenditure, the business would have had to shut down.

(iv) The saving in insured charges in consequence of the fire amounted to ₹ 1,500.

(iv) The turnover for the period of four month ended April 30, August 31 and December 31, for each of the years 2010 and 2011 was as under:

	₹	₹	₹
2010	65,000	80,000	95,000
2011	70,000	80,000	15,000

You are required to compute the relevant claim under the terms of the loss of profits policy. 8

(c) X and Y entered into a joint venture for purchase and sale of some household items. They agreed to share profits and losses in the ratio of their respective contributions. X contributed ₹ 10,000 in cash and Y ₹ 13,000. The whole amount was placed in a Joint Bank Account. Goods were purchased by X for ₹ 10,000 and expenses paid by Y amounted to ₹ 2,000. They also purchased goods for ₹ 15,000 through the Joint Bank Account. The expenses on purchase and sale of the articles amounted to ₹ 6,000 (including those met by Y). Goods costing ₹ 20,000 were sold for ₹ 45,000 and the balance were lost by fire.

Prepare Joint Venture Account, Joint Bank Account and the Ventures' Accounts closing the venture. 8

Answer: 6. (a)

Dr. 15% Debentures of Siva Industries Ltd A/c Cr.

Date	Particulars	FV	Int.	Cost	Date	Particulars	FV	Int.	Cost
01.04.11	To bal. b/d	1,00,000	3,750	1,05,000	30.06.11	By Bank A/c	---	11,250	---
01.05.11	To Bank A/c	50,000	2,500	51,000	01.11.11	By Bank A/c	60,000	3,000	57,300
30.11.11	To Bank A/c	40,000	2,500	38,400	01.11.11	By P&L A/c	---	---	5,700
31.12.11	To P&L A/c	---	---	10,000	31.12.11	By Bank A/c	---	6,750	---
31.03.12	To P&L -Int tfr	---	18,625	---	31.12.11	By Bank A/c	40,000	3,000	52,000
	(bal.fig)				31.03.12	By bal. c/d	90,000	3,375	89,400
		1,90,000	27,375	2,07,400			1,90,000	27,375	2,07,400

Answer: 6. (b)

Calculation of short sales:	₹
Standard turnover: sales from September 1, 2010 to Dec. 31,2010	95,000
Less: Sales during disruption period (1-9-2011 to 31-12-2011)	15,000
Short Sales	80,000

Calculation of Rate of Gross Profit:

Net profit + Insured standing charges / Sales of the last accounting year × 100

(₹ 20,000 + ₹ 28,000)/[₹ 65,000 + ₹ 80,000 + ₹ 95,000 (i.e, Sales for 2010)] × 100

= (₹ 48,000/ ₹2,40,000)× 100 = 20%

Calculation of Amount of Claim for Loss of Profit:	₹
Loss of Profit on short sales of ₹ 80,000 @ 20%	16,000

Add: Increased cost of working:

Net Profit + Insured standing charges × Increased cost of working

Net Profit + All standing charges	
(₹ 20,000 + ₹ 28,000) / (₹ 20,000 + ₹ 30,000) × ₹600	576
	16,576
Less: Saving in insured charges as a result of fire	1,500
Gross Claim	**15,076**

Application of Average Clause:

Sum Insured / Gross Profit on 12 months (Sales preceding the date of fire) x Gross claim

= ₹ 42,000 / 20% of ₹ 2,45,000(1) x 15,076 = ₹ 12,922

Therefore, claim for loss of profit to be lodged is ₹ 12,922.

Working Notes: (1)

Sales for 12 months preceding the date of fire i.e., September 1, 2011 is:

	₹
Sales for September 1, 2010 to December 31, 2010	95,000
Sales for January 1, 2011 to April 30, 2011	70,000
Sales for May 1, 2011 to August 31,2011	80,000
Sales from September 1,2010 to August 31,2011	2,45,000

(2) Computation of Additional Expenses to be considered:

Particulars	₹
(a) Actual expense incurred	600
(b) G.P on reduced turnover avoided ₹15,000 ×20%	3,000
(c) $\text{Increase in cost of working} \times \frac{\text{Net Profit} + \text{Insured Standing Charges}}{\text{Net Profit} + \text{All Standing Charges}}$ i.e.₹600 × $\frac{(20,000+28,000)}{(20,000+30,000)}$ i.e. ₹576	576
Hence , least of (a), (b) and (c) i.e. ₹576 will be considered	

Answer: 6. (c)

Joint Venture Account

Particulars	₹	Particulars	₹
To X (Goods) To Y (Expenses) To Joint Bank A/c (Goods) To Joint Bank A/c (Expenses)	10,000 2,000 15,000 4,000	By Joint Bank A/c (Sales)	45,000
To Profit on Joint Venture transferred to : X (4/7 share) 8,000 Y (3/7 share) 6,000	14,000		
	45,000		**45,000**

Profit of joint venture is to be divided in proportion to the contributions of X and Y. Their contributions are:

	X's Contribution ₹	**Y's Contribution ₹**
Amount contributed in cash	10,000	13,000
Expenses paid by Y		2,000
Goods purchased by X	10,000	
	20,000	**15,000**

Thus, profit sharing ratio between X and Y is 20,000 : 15,000, i.e., 4:3 or 4/7 and 3/7 respectively.

Joint Bank Account

Particulars	**₹**	**Particulars**	**₹**
To X	10,000	By Joint Venture A/c (Expenses)	4,000
To Y	13,000	By Joint Venture A/c (Goods)	15,000
To Joint Venture A/c (Sales)	45,000	By X	28,000
		By Y	21,000
	68,000		**68,000**

X A/c

Particulars	**₹**	**Particulars**	**₹**
To Joint Bank A/c	28,000	By Joint Bank A/c	10,000
		By Joint Venture A/c (Goods)	10,000
		By Joint Venture A/c (Profit)	8,000
	28,000		**28,000**

Y A/c

Particulars	**₹**	**Particulars**	**₹**
To Joint Bank A/c	21,000	By Joint Bank A/c	13,000
		By Joint Venture A/c (Expenses)	2,000
		By Joint Venture A/c (Profit)	6,000
	21,000		**21,000**

7. Answer *any two* questions: **8×2=16**

(a) Some of the items in the Trial Balance of CANHC Bank Limited as on March 31, 2012 were as follows:

	₹		**₹**
Loans and Advances	**71,50,000**	**Printing and Stationary**	**5,000**
Current Accounts (including		**Interest on Saving Bank**	
Overdrafts of ₹ 15,00,000)	**66,00,000**	**Deposits**	**75,000**
Bills Discounted and Purchased	**19,20,000**	**Auditor's Fees**	**5,000**
Interest on Fixed Deposits	**1,55,000**	**Interest on Overdrafts**	**95,000**
Interest on Loans	**2,25,000**	**Provision for Doubtful Debts,**	

Discount (subject to unexpired		April 1, 2011	42,000
discount ₹ 30,000)	2,01,000	Bad Debts	21,000
Interest on Cash Credits	1,05,000	Provision for Income tax,	
Commission earned	47,000	April 1, 2011	66,000
Loss on investment	34,000	Income tax paid for 2011-2012	54,000
Salaries and Allowances	82,000		

Required: Prepare the Profit and Loss Account of the Bank maintaining the provision for Income tax at ₹ 84,000 and Provision for Doubtful Debts at ₹ 52,000 for the year ended March 31, 2012. 8

(b) Following information are provided by the Rashtriya Beema Company for the year ended 31st March, 2014:

(i) On 1st April, 2013, The unexpired risks reserve was in respect of marine insurance business ₹ 52.50 crores; in respect of fire insurance business ₹ 55 crores and in respect of miscellaneous insurance business ₹ 12.50 crores.

(ii) It is the practice of the company to create reserve at 100% of net premium income in respect of marine insurance policies and at 50% of net premium in respect of fire and miscellaneous insurance policies.

(iii) During the year 2013-14 the following business was conducted:

			(₹ in crores)
Particulars	Marine	Fire	Miscellaneous
Premium collected from:			
1. Insured in respect of policies issued	57	125	30
2. Other insurance companies in respect of risks undertaken	17.5	12.5	10
Premium paid/payable to other insurance companies on business ceded	21.50	16.50	8.50

You are required:

(i) Pass necessary journal entries relating to unexpired risks reserve.

(ii) Show unexpired risks reserve account (in columnar form) for the year ended 31st March, 2014. 3+5=8

(c) The Mettur Electricity Company Ltd. decides to replace one of its old plants with a modern one with a larger capacity. The plant when installed in 1950 cost the company ₹ 48,00,000, the components of materials, labour and overhead being in the ratio of 5:3:2.

It is ascertained that the cost of materials and labour have gone up by 40% and 80% respectively. The proportion of overheads to total costs is expected to remain the same as before.

The cost of the new plant as per improved design is ₹ 1,20,00,000 and in addition, materials recovered from the old plant of a value ₹ 4,80,000 have been used in the construction of the new plant. The old plant was scrapped and sold for ₹ 15,00,000.

The accounts of the company are maintained under Double Account System. Indicate how much would be capitalised and the amount that would be charged to revenue. Show journal entries and prepare necessary ledger accounts. 8

Answer: 7. (a)

CANHC Bank Ltd.
Profit & Loss A/c for the year ended 31st March, 2012

	Particulars	Schedule No.	Year ended 31st March 2012 (₹ '000)	Year ended 31st March 2011 (₹ '000)
I.	Income:			
	Interest earned	13	626	
	Other Income	14	13	
	Total		639	
II.	Expenditure:			
	Interest expended	15	230	
	Operating expenses	16	92	
	Provision and Contingencies [72+31+30]		133	
	Total		455	
III.	Profit/Loss:			
	Net profit for the year		184	
	Profit/Loss brought forward		---	
	Total		184	
IV.	Appropriations:			
	Transfer to Statutory Reserve @ 25%		46	
	Balance carried over to Balance Sheet		138	
	Total		184	

Schedule 13-Interest Earned

	Particulars	Year ended 31st March. 2012 (₹ '000)	Year ended 31st March 2011 (₹ '000)
I.	Interest/Discount [2.25 + 2.01+1.05 + 0.95]lakhs	626	
II.	Interest on Investment	---	
III.	Interest on Balance with RBI and Other inter bank fund	---	
		626	

Schedule 14 - Other Income

	Particulars	Year ended 31st March. 2012 (₹ '000)	Year ended 31st March 2011 (₹ '000)
I.	Commission, Exchange and Brokerage	47	
II.	Loss on sale of Investment	(-)34	
		13	

Schedule 15 - Interest Expended

	Particulars	Year ended 31st March. 2012 (₹ '000)	Year ended 31st March 2011 (₹ '000)
I.	Interest on Deposits [0.75 + 1.55]lakhs	230	
II.	Interest on RBI/inter bank borrowings	---	
		230	

Schedule 16 - Operating Expenses

	Particulars	Year ended 31st March. 2012 (₹ '000)	Year ended 31st March 2011 (₹ '000)
I.	Payment to and provision for employees	82	
II.	Printing & Stationery	5	
III.	Auditors' fees	5	
		92	

Provision for Doubtful Debts Account

Dr. Cr.

Particulars	₹ '000	Particulars	₹ '000
To Bad Debts	21	By Balance b/d	42
To Balance c/d	52	By Profit & Loss A/c	31
	73		73

Provision for Taxation Account

Dr. Cr.

Particulars	₹ '000	Particulars	₹ '000
To Bank A/c	54	By Balance b/d	66
To Balance c/d	84	By Profit & Loss A/c	72
	138		138

Answer: 7. (b)

Books of Rashtriya Beema Company

Date	Journal	(₹ in crores)	(₹ in crores)
31.03.14	Marine Revenue A/c Dr. To Unexpired Risks Reserve A/c (Provision made for unexpired risks reserve on marine business is (53 – 52.50)]	0.50	 0.50
31.03.14	Fire Revenue A/c Dr. To Unexpired Risks Reserve A/c [Unexpired risks reserve made for fire business is (60.5 – 55)]	5.50	 5.50
31.03.14	Miscellaneous Revenue A/c To Unexpired Risks Reserve A/c [Unexpired Risks Reserve made for Miscellaneous business is(15.75 – 12.50)]	3.75	 3.75

Unexpired Risks Reserve Account

(₹ in crores)

Dr. Cr.

Date	Particulars	Marine ₹	Fire ₹	Misc ₹	Date	Particulars	Marine ₹	Fire ₹	Misc ₹
31.3.14	To Revenue A/c	52.50	55.00	12.50	1.4.13	By Balance b/d	52.50	55.00	12.50
31.3.14	To balance c/d	53.00	60.50	15.75	31.3.14	By Revenue A/c	53.00	60.50	15.75
		105.50	115.50	28.25			105.50	115.50	28.25

Working Note: Calculation of Account of Unexpired Risks Reserve as on 31.03.2014

Particulars	(₹ in crores)		
	Marine (₹)	Fire (₹)	Misc (₹)
Premium collected from policy holders	57	125	30
Add: Premium collected from other Insurance Cos.	17.5	12.5	10
	74.5	137.5	40
Less: Premium paid/payable to other Insurance Cos.	21.5	16.5	8.5
Net premium	53	121	31.5
Required % to create reserve	100%	50%	50%
Amount of Reserve will be on 31.03.2014	53	60.5	15.75
Less: Opening Balance of Reserve on 01.04.2013	52.5	55	12.50
Additional Reserve to be made	0.50	5.50	3.75

Answer: 7. (c) Working notes

	₹
(i) Computation of total actual cost of new plant: Cost of new plant (as given)	1,20,00,000
Add: Value of materials of old plant used in construction of new Plant	4,80,000
	1,24,80,000
(ii) Split-up of cost of old Plant when acquired in 1950:	
Materials $\left(48,00,000\times\frac{5}{10}\right)$	24,00,000
Labour $\left(48,00,000\times\frac{3}{10}\right)$	14,40,000
Overheads $\left(48,00,000\times\frac{2}{10}\right)$	9,60,000
	48,00,000

Percentage of overheads to total cost = $\frac{9,60,000}{48,00,000}\times100$ = 20% or

Percentage of overheads to combined cost of material and labour

$$= \frac{9,60,000}{38,00,000}\times100 = 25\%$$

(b) Current Cost of Replacement:

(i) Material is (Increase by 40% over ₹24,00,000) (i.e., ₹ 24,00,000 + 40% increase 9,60,000) Labour (increased by 80% over ₹14,40,000) (i.e., ₹14,40,000+ 80% increase ₹11,52,000) Overheads (25% of combined cost of material and Labour i.e., 25% of (₹33,60,000 + 25,92,000)	33,60,000 25,92,000 14,88,000
	74,40,000
(ii) Computation of amount of replacement to be capitalized: Total actual cost of new Plant Less: Estimated present cost of replacement	 1,24,80,000 74,40,000
Amount to be capitalised	50,40,000

(iii) Computation of amount of replacement to be charged to Revenue A/c:		
Estimated present cost of replacement		74,40,000
Less: Value of old material used in construction of new plant	4,80,000	
Amount realized on sale of old Plant	15,00,000	19,80,000
Change to Revenue		54,60,000
(iv) Computation of actual amount of Cash spent on replacement:		
Total actual cost of new Plant		1,24,80,000
Less: Value of old materials used in construction of new Plant		4,80,000
		1,20,00,000

Journal Entries ₹

Date	Particulars	L.F	Dr.	Cr.
1	Replacement A/c Dr.		74,40,000	
	Plant A/c (Bal. Fig.) Dr.		45,60,000	
	To Bank A/c [W.N.(iv)]			1,20,00,000
2	Bank A/c Dr.		15,00,000	
	To Replacement A/c			15,00,000
3	Plant A/c Dr.		4,80,000	
	To Replacement A/c			4,80,000
4	Revenue A/c Dr.		54,60,000	
	To Replacement A/c			54,60,000

Plant A/c

Particulars	₹	Particulars	₹
To Balance b/d	48,00,000	By Balance c/d	98,40,000
To Bank A/c	45,60,000		
To Replacement A/c	4,80,000		
	98,40,000		98,40,000

Replacement A/c

Particulars	₹	Particulars	₹
To Bank A/c	74,40,000	By Bank A/c	15,00,000
		By Plant A/c	4,80,000
		By Revenue A/c (Bal.Fig)	54,60,000
	74,40,000		74,40,000