

Suggested Answer_Syl12_Dec2015_Paper 5

INTERMEDIATE EXAMINATION GROUP I (SYLLABUS 2012)

SUGGESTED ANSWERS TO QUESTIONS DECEMBER 2015

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 a part of your answer.
Assumptions, if any should be clearly stated.*

Please (1) Answer all bits of a question at one place.
(2) Open a new page for answer to a new question.

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

(a) JINDAL LTD. provides the following information regarding Pension Plan Assets for the year ended March 31, 2015:

	₹
Fair market Value of Plan Assets (as on 01.04.2014)	11,00,000
Actual Return on Plan Assets	2,20,000
Benefit payments to Retirees	2,00,000
Fair Market Value of Plan Assets (as on 31.03.2015)	15,00,000

You are required to calculate the Employer Contribution to the Plan Assets for 2014-15 as per AS-15.

(b) On April 1, 2014 ZOOM LTD. purchased a Machine for ₹ 5,50,000 and spent ₹ 30,000 on its installation, ₹ 5,000 for freight and cartage and ₹ 10,000 for Insurance Charges. The expected life of the Machine is 5 years, at the end of which the estimated scrap value will be ₹ 46,000.

Calculate the amount of Annual Depreciation under Straight Line Method (SLM).

(c) TULSIAN LTD. with its Head Office in Delhi invoices goods to its Branch at Mumbai at 20% less than the catalogue price which is cost plus 50% with instructions that each sales are to be made at invoice price and credit sales at catalogue price.

Opening Stock at Branch at its cost	₹12,000
Goods sent to Branch (at cost to H.O.)	₹1,40,000
Goods received by Branch till close of the year	₹1,38,000
Cash Sales	₹46,000
Credit Sales	₹1,00,000
Stock lost by fire (at cost)	₹2,500

Required:

Calculate the amount of Closing Stock at Branch-Mumbai.

Suggested Answer_Syl12_Dec2015_Paper 5

- (d) KARYA LTD. took on lease a mine of 5 years on 1st April, 2014. The royalty is payable at a rate of 10% on sales subject to a Minimum rent of ₹ 2,00,000 over the term of lease. The sales during the year 2014-15 amounted to ₹ 3,00,000.

What will be the amount of Royalty payable by Karya Ltd. for the year 2014-15?

- (e) LIBRA LTD. has two Debtors Ledgers (A-M and N-Z) in use on the Self-Balancing System. MS Chatterjee a customer whose Account-shows a Debit Balance of ₹ 5,300 in the (A-M) Debtors Ledger; marries MR SINGH and her amount is, therefore required to be transferred to the (N-Z) Debtors Ledger.

Required:

Pass the Transfer Entries.

- (f) SEA LTD. has recognized ₹ 12 lakh on accrual basis from dividends on units of a Mutual Fund of the face value of ₹ 65 lakh held by it at the end of financial year 31.03.2015. Dividends on funds were proposed on 10.04.2015 and declared at 12% on 10.08.2015.

Please state with reference to relevant Accounting Standard, whether the treatment accorded by SEA LTD. is in order.

- (g) On 1st April, 2015 ALOKE accepted a bill for ₹ 5,000 for 3 months drawn by KUNTAL. Kuntal endorses the bill in favour of Chinu. At maturity, the bill was dishonoured. Pass the Journal Entries in the Books of KUNTAL.

- (h) The godown of KODIAC LTD. was engulfed in fire on 31st May, 2015 as a result of which a part of stock burnt to ashes. The stock was covered by Fire Policy for ₹ 2,00,000 subject to Average Clause. The records of the company revealed the following particulars.

Actual Value of Stock as on 31.05.2015 : ₹ 4,00,000

The Value of Salvaged Stock : ₹ 90,000

You are required to ascertain the amount of claim to be lodged with the Insurance Company.

- (i) INDIAN BANK provides the following particulars:

Sl. No.	Date of Bill	Amount of Bill (₹)	Period	Rate of Discount
(i)	15.01.2015	90,000	5 Months	8%
(ii)	10.02.2015	60,000	4 Months	9%

Required:

Calculate the Rebate on Bills Discounted as on 31st March, 2015.

- (j) The Revenue Account of HEAVEN LIFE INSURANCE LTD. shows the Life Assurance Fund on 31st March, 2015 at ₹ 42,08,400 before taking into account the following items:

	₹
Claims covered under re-insurance	12,000
Claims intimated but not admitted	22,050
Premium Outstanding	8,110

What is the Balance of Life Assurance Fund?

Suggested Answer_Syl12_Dec2015_Paper 5

Answer:

1. (a) Calculation of Employer contribution to Plan Assets:

Particulars	₹
Fair market value of Plan Assets (as on 31.03.2015)	15,00,000
Fair market value of Plan assets (as on 01.04.2014)	(11,00,000)
Change in Plan Assets	4,00,000
Actual return on plan assets	(2,20,000)
Benefits payments to Retirees	2,00,000
Employer contribution to plan assets	3,80,000

(b) Calculation of Annual Depreciation under Straight Line Method:

Annual Depreciation: $(5,50,000 + 30,000 + 5,000 - 46,000) \div 5 = (5,39,000) \div 5 = ₹ 1,07,800.$

(c) Calculation of closing stock at Branch Mumbai:

	Particulars	₹
A	Opening Stock	12,000
B	Add: Goods received	1,38,000
C	Less: Invoice price of cash sales	(46,000)
	Invoice price of credit sales (₹1,00,000 × 120 / 150)	(80,000)
	Abnormal Loss (₹ 2,500 + 20%)	(3,000)
D	Closing stock at Branch in hand	21,000
E	Closing stock in transit (₹ 1,68,000 – ₹ 1,38,000)	30,000
F	Total Branch stock (at invoice price)	51,000

(d) Minimum rent per annum = ₹ 2,00,000 ÷ 5 = ₹ 40,000
 Royalty based on Sales = 10% of ₹ 3,00,000 = ₹ 30,000

Amount of Royalty payable is ₹ 40,000
 (Since minimum rent is more than royalty on the basis of sales).

(e)

**In the books of LIBRA LTD.
Journal Entries**

Particulars	Dr. (₹)	Cr. (₹)
Mrs. Singh A/c (in the N-Z Debtors' Ledger) Dr. To MS Charatterjee (in the A-M Debtors' Ledger) (Being the balance transferred from A-M Debtors' Ledger to N-Z Debtors' ledger)	5,300	5,300
N-Z Debtors' Ledger Adjustment A/c (in the General Ledger) Dr. To A-M Debtors' Ledger Adjustment A/c (in the General Ledger) (Correcting entry of Adjustment A/c pursuant to the transfer)	5,300	5,300

(f) As per AS 9 "Revenue Recognition" states that dividend from investments in shares are not recognized in the statement of Profit and Loss until the right to receive dividend is established.

In the given case, the dividend is proposed on 10th April, 2015, while it was declared on 10.08.2015. Hence, the right to receive dividend is established on 10th August 2015 only. Therefore, on applying the provisions stated in the standard, income from

Suggested Answer_Syl12_Dec2015_Paper 5

dividend on units of mutual fund must be recognized by SEA Ltd in the financial year 2015-16 only.

Therefore, the recognition of income from dividend on units of mutual fund on accrual basis, in the financial year 2014-15 is not in accordance with AS 9.

(g)

In the books of KUNTAL

Date	Particulars	Dr. (₹)	Cr. (₹)
2015 April, 1	Bills Receivable A/c Dr. To Alope A/c (Being a bill drawn on Alope)	5,000	5,000
	Chinu A/c Dr. To Bills Receivable A/c (Being the bills previously drawn on Alope new endorsed in favour of Chinu)	5,000	5,000
July, 4	Alope A/c Dr. To Chinu A/c (Being the bill disonoured at maturity)	5,000	5,000

(h) Amount of Claim = Loss of Stock × (Amount of Policy ÷ Stock at the date of fire)
 = (4,00,000 – 90,000) × (2,00,000 ÷ 4,00,000)
 = 3,10,000 × 0.50
 = ₹ 1,55,000

(i)

INDIAN BANK

Calculation of Rebate on Bills Discounted. (as on March 31, 2015)

Amount of Bills (₹)	Due Date	Days after 31 st March, 15	Discount Rate	Amount (₹)
90,000	18.06.2015	30+31+18=79	8%	1,558.36
60,000	13.06.2015	30+31+13=74	9%	1,094.79
			Total	2,653.15

(j) Statement showing life assurance fund:

	₹	₹
Balance of Life Assurance Fund as on 31.03.2015		42,08,400
Add: Premium outstanding		8,110
		42,16,510
Less: Claims covered under re-insurance	12,000	
Claims intimated but not admitted	22,050	34,050
Balance of Life Assurance Fund		41,82,460

2. Answer any two questions (Carrying 4 Marks each):

4×2=8

(a) Trial Balance of ANKIT LTD. failed to agree and the difference was put into Suspense Account pending investigation which discovered the following:

- (i) Discount received ₹1,320 had been debited to Discount allowed as ₹132.
- (ii) Goods of the value of ₹ 200 returned by Kishna were entered in the Sales Day Book and posted therefrom to the credit of Krishna as ₹20.
- (iii) A credit purchase of ₹500 from N. Kumar was recorded as sale to M. Kumar for ₹50.

Suggested Answer_Syl12_Dec2015_Paper 5

(iv) A credit sale of machine of P. Dass for ₹600 recorded through Sales Day Book as sale to C. Dass for ₹60.

Required:

Pass the Rectifying Entries in the Book of Ankit Ltd.

4

(b) VOLGA LTD. sold goods on credit. Details related to a customer M/S Jaishree Steel for the year ending 31st March, 2015 are as under:

Goods sold on credit ₹ 25,00,000.

Goods returned by the customer ₹2,10,000 and credit note raised but not recorded.

Payment received from customer in cash ₹2,50,000 and by cheques ₹9,80,000. Out of cheques received, a cheque of ₹1,45,000 was dishonoured by bank.

Customer accepted 3 bills of ₹68,000, ₹1,50,000 and ₹2,07,000 for 1 month, 2 months and 3 months respectively. Out of which one bill for ₹ 68,000 was dishonoured.

Discount allowed ₹ 21,000.

Credit note raised against the customer ₹ 10,500 for excess payment charged against one of the consignment.

M/S Jaishree Steel, the customer is in need to ascertain the actual balance due to VOLGA LTD. as on 31.03.2015.

You are required to prepare Reconciliation Statement for the year ended 31st March, 2015.

4

(c) LUXOR LTD. deals in three products A, B and P which are neither similar nor interchangeable. At the time of closing of its Financial Account for the year ended March 31, 2015, Valuation of Closing Stock of the said products is to be determined.

The details of Closing Stock of the three products extracted from the records of the company are as under:

Type of Product	Cost of Materials	Production Expenses incurred	Selling and Distribution expenses to be incurred	Estimated Selling Value
	₹	₹	₹	₹
A	1,00,000	20,000	10,000	1,50,000
B	50,000	5,000	5,000	50,000
P	<u>1,20,000</u>	<u>30,000</u>	<u>20,000</u>	<u>1,80,000</u>
	<u>2,70,000</u>	<u>55,000</u>	<u>35,000</u>	<u>3,80,000</u>

You are required to compute the value of stock as per AS-2 for inclusion in the financial statement as on 31.03.2015.

4

Answer:

2. (a)

In the books of ANKIT LTD.

Journal Entries

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
(a)	Suspense A/c Dr. To Discount Allowed A/c To Discount Received A/c (Being discount received wrongly posted to discount allowed A/c, now rectified)		1,452	132 1,320
(b)	Krishan A/c Dr. Sales A/c Dr. Sales Returns A/c Dr.		20 200 200	

Suggested Answer_Syl12_Dec2015_Paper 5

	To Kishan A/c To Suspense A/c (Being sale returns recorded as sale with wrong amount and wrong posting therefrom, now rectified)			200 220
(c)	Sales A/c Dr. Purchases A/c Dr. To N. Kumar To M. Kumar (Being the credit purchase recorded as sale, now rectified)		50 500	500 50
(d)	P. Dass A/c Dr. Sales A/c Dr. To Machine A/c To C. Dass A/c (Being the credit sale of machine recorded as sale, now rectified)		600 60	600 60

(b)

VOLGA LTD.

Receivable from M/s Jaishree Steel-Reconciliation statement as on 31st March 2015.

Particulars	(₹)	(₹)
Credit sales during the year 2014-15		25,00,000
Less: Goods returned by the customer	2,10,000	
Payment received in cash	2,50,000	
Payment received by cheques less dishonoured cheque (9,80,000-1,45,000)	8,35,000	
Bills Receivables from customer less dishonoured bill (4,25,000-68,000)	3,57,000	
Discount allowed to customer	21,000	
Adjustment of credit note raised	10,500	16,83,500
Net receivable from customer		8,16,500

(c)

LUXOR LTD.

As per para 21, AS-2, inventories are usually written-down to Net realizable value (NRV) on item-by item basis.

(Amount in ₹)

Type of product	Cost price (including production expenses)	Net realizable value (NRV) (excluding selling and distribution expenses from selling price)	Value of stock to be taken (Lower of cost price and net realizable value)
A	(1,00,000+20,000) = 1,20,000	(1,50,000-10,000) = 1,40,000	1,20,000
B	50,000+5,000 = 55,000	(50,000-5,000) = 45,000	45,000
P	(1,20,000+30,000) = 1,50,000	(1,80,000-20,000) = 1,60,000	1,50,000
			3,15,000

So, value of stock will be ₹ 3,15,000 for inclusion in the financial statements as per AS-2.

Suggested Answer_Syl12_Dec2015_Paper 5

3. Answer any two questions: (Carrying 12 Marks each)

12×2=24

(a) The following is the Income and Expenditure Account of GREEN CITY CLUB for the year ended March 31, 2015.

(Amount in ₹)			
To Salaries	4,80,000	By Subscriptions	13,00,000
To Rent	1,20,000	By Entrance Fees	2,00,000
To Printing & Stationery	30,000	By Contribution for Annual Dinner	1,60,000
To Travelling Expenses	60,000	By Profit on Annual Sports	20,000
To Annual Dinner Expenses	1,40,000		
To Secretary's Honorarium	1,20,000		
To General Expenses	60,000		
To Interest and Bank Charges	18,000		
To Audit Fees	20,000		
To Books & Periodicals	30,000		
To Depreciation	25,000		
To Excess of Income over Expenditure	5,77,000		
	16,80,000		16,80,000

The Income and Expenditure Account has been prepared after the following adjustments:

	₹
Subscription Outstanding on 31.03.2014.	1,20,000
Subscription received in Advance on 31.03.2014.	90,000
Subscription Outstanding on 31.03.2015	80,000
Subscription received in Advance on 31.03.2015	1,40,000

Salaries Outstanding at the beginning of the year and at the end of the year were ₹40,000 and ₹30,000 respectively.

Audit fees for the year (2014-15) has not been paid. Previous year's audit fee ₹15,000 was paid during the year.

The club's Assets on 31st March, 2014 were as follows:

	₹
Freehold Land	10,00,000
Sport Equipments	2,60,000

At the end of the year, after depreciation the equipments amounted to ₹ 2,70,000. Bank Loan of ₹ 1,00,000 as on 31st March, 2014 was still due at the end of the current year. On 31st March, 2015. Cash as Bank amounted to ₹ 6,97,000.

You are required to prepare:

- (i) The Receipts and Payments Account for the year ended 31st March, 2015 and
 (ii) Balance Sheet as on 31.03.2015. 5+4+1+2=12

(b) The hire purchase department of RAVERA ELECTRO LTD Sells LCD TV Sets and Refrigerators. This department was newly started on 1st April, 2014. The relevant information is as follows:

(Amount in ₹)		
Particulars	LCD TV	Refrigerator
Cost	48,600	20,000
Cash Price	56,700	24,000
Cash Down Payment	8,100	4,000
Monthly Installments	5,400	2,000

Suggested Answer_Syl12_Dec2015_Paper 5

Number of Installments	10	12
------------------------	----	----

During the year ended March 31, 2015, 100 LCD TV Sets and 120 Refrigerators were sold on hire purchase (HP) basis. Two LCD TV Sets on which 3 installments only could be collected and 4 Refrigerators on which 5 installments had been collected were repossessed. These were valued at ₹ 95,000 and after reconditioning at a cost of ₹ 10,000 were sold outright for ₹ 1,30,000. Other installments collected and those due (customer still paying) were respectively as follows:

LCD TV Sets	270 and 20
Refrigerators	400 and 30.

Required:

Prepare necessary Ledger Accounts on 'Stocks and Debtors System' to record the above transactions and to reveal the profit of RAVERA ELECTRO LTD. 2+1+2+1+2+4=12

(c) A, B and C have been in business partnership for some years, Sharing Profit and in the proportions of 4:3:3.

The balances in the books of the firm as on 31st March, 2015 subject to final Adjustment, were as under:

	(Amount in ₹)	
	Dr. (₹)	Cr. (₹)
Capital Account - A		3,00,000
Capital Account - B		1,50,000
Capital Account - C		1,80,000
Profit for the year before charging interest		3,12,000
Land and Buildings	2,40,000	
Furniture and Fixtures	45,000	
Stock	3,75,000	
Debtors	60,000	
Bank	1,20,000	
Creditors		90,000
Partner's Drawings - A	48,000	
Partner's Drawings - B	72,000	
Partner's Drawings - C	72,000	
Total	10,32,000	10,32,000

C died on 30.09.2014. the Partnership deed provided that:

- (1) Interest was to be credited on Capital accounts of partners at 10% P.A. on the balance at the beginning of the year.
- (2) On the death of a Partner:
 - (i) Goodwill was to be valued at three years' purchase of average Annual Profits of three years up to the date of death, after deducting interest on Capital Employed at 8% P.A. and a fair remuneration for each of the partners;
 - (ii) Fixed Assets were to be valued by an independent valuer and all other assets and liabilities to be taken at Book Value.
- (3) Wherever necessary, profit or loss should be apportioned on a time basis.
- (4) The amount due to the deceased partner's Sole Heir was to receive interest @ 12% P.A. from the date of death until paid.

It was ascertained that:

- (a) Profits for three years, before charging partners' interest were: 2011-12 – ₹ 3,36,000, 2012-13 – ₹ 3,78,000 and 2013-14 – ₹ 3,60,000 respectively.
- (b) The independent valuation at the date of death revealed: Land and Buildings – ₹ 3,00,000 and Furniture and Fixtures – ₹ 30,000.
- (c) A fair remuneration for each of the Partners would be ₹ 75,000 P.A. and that the Capital employed in business to be taken as ₹ 7,80,000 throughout.

Suggested Answer_Syl12_Dec2015_Paper 5

It was agreed among the Partners that –

- (i) Goodwill was not to be shown as an asset of the firm as on 31.03.2015. therefore, adjustment for goodwill was to be made in Capital Accounts.
- (ii) A and B would share equally from the date of death of C.
- (iii) Depreciation on revised value of assets would be ignored.

You are required to prepare:

- (i) Revaluation Account
- (ii) Partners' Capital Accounts
- (iii) Partner's Current Accounts
- (iv) C's Heir Account
- (v) Balance Sheet as on 31.03.2015

1+2+1+1+4+3=12

Answer:

3. (a)

GREEN CITY CLUB
Receipts and Payments Account
For the year ended 31st March, 2015

Dr.		Cr.	
Receipts	Amount (₹)	Payments	Amount (₹)
To Balance b/d (Balancing Figure)	45,000	By Salaries (4,80,000-30,000)	4,50,000
To Subscription (Working Note-3)	13,90,000	By Outstanding salaries for 13-14	40,000
To Entrance Fees	2,00,000	By Rent	1,20,000
To Contribution for Annual Dinner	1,60,000	By Printing & Stationery	30,000
To Excess of Annual Sports Meet Receipts over expenditure	20,000	By Travelling Expenses	60,000
		By Annual Dinner Expenses	1,40,000
		By Secretary's Honourarium	1,20,000
		By General Expenses	60,000
		By Interest and Bank Charges	18,000
		By Outstanding Audit Fees for 13-14	15,000
		By Books and Periodicals	30,000
		By Sports Equipment (working Note-2)	35,000
		By Balance c/d	6,97,000
	18,15,000		18,15,000

Alternative Solution —

If a separate Salary Account is opened

Dr.		Salary Account		Cr.	
Particulars	₹	Particulars	₹		
To Bank A/c (Bal fig.)	4,90,000	By Balance b/d(O/S)	40,000		
To Balance c/d (O/S)	30,000	By Income & Expenditure A/c (given)	4,80,000		
	5,20,000				5,20,000

Suggested Answer_Syl12_Dec2015_Paper 5

Receipts and Payments account For the year ended 31 st March, 2015			
Dr.			Cr.
Receipts	₹	Payments	₹
To Balance b/d (Bal fig.)	45,000	By Salaries	4,90,000
To Subscription	13,90,000	By Rent	1,20,000
To Entrance Fees	2,00,000	By Printing & Stationery	30,000
To Contribution for Annual Dinner	1,60,000	By Travelling Expenses	60,000
To Profit on Annual Sports	20,000	By Annual Dinner Expenses	1,40,000
		By Secretary's Honorarium	1,20,000
		By General Expenses	60,000
		By Interest and Bank Charges	18,000
		By Outstanding Audit Fees	15,000
		By Books and Periodicals	30,000
		By Sports Equipment	35,000
		By Balance c/d	6,97,000
	18,15,000		18,15,000

Balance Sheet as on 31st March 2015

Liabilities	Amount (₹)	Amount (₹)	Assets	Amount (₹)	Amount (₹)
Capital Fund	11,80,000		Freehold land		10,00,000
Add: Excess of Income over Expenditure	5,77,000	17,57,000	Sports equivalent	2,95,000	
Bank Loan		1,00,000	Less: Depreciation	25,000	2,70,000
Outstanding Salaries		30,000	Subscription in Arrear		80,000
Outstanding audit fees		20,000	Cash at Bank		6,97,000
Subscription in advance		1,40,000			
		20,47,000			20,47,000

Working Notes:

1. Opening Balance of Capital Fund

Balance Sheet as on 31st March, 2014

Liabilities	Amount (₹)	Assets	Amount (₹)
Capital Fund (Balancing Figure)	11,80,000	Freehold land	10,00,000
Bank Loan	1,00,000	Sports equivalent	2,60,000
Outstanding Salaries	40,000	Subscription in Arrear	1,20,000
Outstanding audit fees	15,000	Cash at Bank	45,000
Subscription in advance	90,000		
	14,25,000		14,25,000

2. Sports Equipment purchased during 2014-15

Sports Equipment Account

Dr.				Cr.
	Amount (₹)			Amount (₹)
To Balance b/d	2,60,000	By Depreciation		25,000
To Bank A/c - Purchase	35,000	By Balance C/d		2,70,000

Suggested Answer_Syl12_Dec2015_Paper 5

	2,95,000		2,95,000
--	----------	--	----------

3. Statement showing collection of subscription during 2014-15

	Amount (₹)	Amount (₹)
Subscription for 2014-15		13,00,000
Add: Subscription outstanding on 31.03.2014	1,20,000	
Add: Subscription received in advance on 31.03.2015	1,40,000	2,60,000
		15,60,000
Less: Subscription outstanding on 31.03.2015	80,000	
Less: Subscription received in advance on 31.03.2014	90,000	1,70,000
		13,90,000

(b)

RAVERA ELECTRO LTD. Hire Purchase Stock Account

Dr.		Cr.	
Particulars	₹	Particulars	₹
To Goods sold on H.P.	95,70,000	By H.P. Debtors A/c	37,88,400
		By Goods repossessed A/c (Installments not due on repossessed goods)	1,31,600
		By Balance c/d (Installment not yet due)	56,50,000
	95,70,000		95,70,000

Hire Purchase Debtors Account

Dr.		Cr.	
Particulars	₹	Particulars	₹
To Hire Purchase Stock A/c	37,88,400	By Bank A/c	36,20,400
		By Balance c/d	1,68,000
	37,88,400		37,88,400

Goods Repossessed Account

Dr.		Cr.	
Particulars	₹	Particulars	₹
To Hire Purchase Stock A/c	1,31,600	By Hire Purchase Adjustment A/c (Balancing Figure)	36,600
		Balance C/d	95,000
	1,31,600		1,31,600
To Balance b/d	95,000	By Bank (Sales)	1,30,000
To Bank (Expenses)	10,000		
To Hire Purchase Adjustment A/c (Profit)	25,000		
	1,30,000		1,30,000

Goods Sold on Hire Purchase Account

Dr.		Cr.	
Particulars	₹	Particulars	₹
To Hire Purchase Adj. A/c (Loading)	23,10,000	By Hire Purchase Stock A/c	95,70,000
To Purchases A/c	72,60,000		
	95,70,000		95,70,000

Hire Purchase Adjustment Account

Dr.		Cr.	
Particulars	₹	Particulars	₹
To Goods Repossessed A/c (Loss)	36,600	By Goods sold on Hire Purchase A/c (Loading)	23,10,000

Suggested Answer_Syl12_Dec2015_Paper 5

(iv) Stock Reserve:

$\text{Stock Reserve} = \frac{\text{H.P. Price} - \text{Cost Price}}{\text{H.P. Price}} \times \text{Amount of Instalments not yet due}$		
$\text{LCD TV sets} = \frac{13500}{62100} \times 3726000 = ₹8,10,000$		
$\text{Refrigerators} = \frac{8000}{28000} \times 1924000 = ₹5,49,714$		
<table style="width: 100%; border: none;"> <tr> <td style="border: none;">Total</td> <td style="border: none; text-align: right;">₹13,59,714</td> </tr> </table>	Total	₹13,59,714
Total	₹13,59,714	

(v) Installment not due on repossessed goods:

Particulars	₹
2 LCD TV sets 7 installments on each @ ₹ 5,400	75,600
4 Refrigerators 7 installments on each @ ₹ 2,000	56,000
	1,31,600

(vi) Installments due but not collected:

Particulars	₹
LCD TV sets (20 × ₹ 5,400)	1,08,000
Refrigerators (30 × ₹ 2,000)	60,000
	1,68,000

(c)

(i)

In the books of ABC firm Revaluation Account

Dr.	₹	₹	Cr.
Particulars		Particulars	₹
To Furniture and Fixture A/c	15,000	By Land and Building A/c	60,000
To Partners' Capital A/cs (A-₹ 18,000, B-₹ 13,500, C-₹ 13,500)	45,000		
	60,000		60,000

(ii)

Partners' Capital Accounts

Dr.	A (₹)	B (₹)	C (₹)	₹	A (₹)	B (₹)	C (₹)	Cr.
Particulars					Particulars			
To C's Capital A/c – Goodwill	19,980	39,960	--		By Balance b/d	3,00,000	1,50,000	1,80,000
To C's Current A/c – Transfer	--	--	25,650		By Revaluation A/c	18,000	13,500	13,500
To C's Heir A/c	--	--	2,27,790		By A's Capital A/c – Goodwill	--	--	19,980
To Balance c/d	2,98,020	1,23,540	--		By A's Capital A/c – Goodwill	--	--	39,960
	3,18,000	1,63,500	2,53,440			3,18,000	1,63,500	2,53,440

(iii)

Partners' Current Accounts

Dr.	A (₹)	B (₹)	C (₹)	₹	A (₹)	B (₹)	C (₹)	Cr.
Particulars					Particulars			
To Balance b/d	48,000	72,000	72,000		By P/L Appropriation A/c (Interest on Capital A/c)	30,000	15,000	9,000
To Balance	91,716	40,266	--		By P/L Appropriation A/c	1,09,716	97,266	37,350

Suggested Answer_Syl12_Dec2015_Paper 5

c/d							
				By Capital A/c - (Transfer)	--	--	25,650
	1,39,716	1,12,266	72,000		1,39,716	1,12,266	72,000

(iv)

C's Heir Account

Dr.	₹	Cr.	₹
Particulars		Particulars	
To Balance c/d	2,41,458	By C's Capital A/c	2,27,790
		By Profit & Loss Appropriation A/c	13,668
	2,41,458		2,41,458

(v)

Balance Sheet as on 31st March 2015

Liabilities	₹	Assets	₹
Capital Account - A	2,98,020	Land and Buildings	3,00,000
Capital Account - B	1,23,540	Furniture and Fixtures	30,000
Current Account - A	91,716	Stock	3,75,000
Current Account - B	40,266	Debtors	60,000
C's Heir Account	2,41,458	Bank	1,20,000
Creditors	90,000		
	8,85,000		8,85,000

Working Notes:

(1) Adjustment in Regard to Goodwill

Particulars	Amount (₹)
Aggregate profits for three years upto date of death (30.09.2014) are as follows:	
Profit for the year ended 30 th Sept. 2012: (½ of ₹ 3,36,000 + ½ of ₹ 3,78,000)	3,57,000
Profit for the year ended 30 th Sept. 13: (½ of ₹ 3,78,000 + ½ of ₹ 3,60,000)	3,69,000
Profit for the year ended 30 th Sept. 14: (½ of ₹ 3,60,000 + ½ of ₹ 3,12,000)	3,36,000
Total profits for three years	10,62,000
Average profits (₹10,62,000 ÷ 3)	3,54,000
Less: Interest on capital employed (8% on ₹ 7,80,000)	62,400
Fair remuneration to partners	2,25,000
Adjusted average profit for goodwill	66,600
Goodwill is the purchase of 3 year's profit = 3 × ₹ 66,600	1,99,800

Partners	A (₹)	B (₹)	C (₹)
Right of goodwill before death (4:3:3)	79,920	59,940	59,940
Right of goodwill after death (1:1)	99,900	99,900	--
Gain (+)/Sacrifice(-)	(+ 19,980)	(+ 39,960)	(-) 59,940

(2) Profit & Loss Appropriation Account

Dr.			Cr.		
Particulars	01.04.14 to 30.09.14	01.10.14 to 31.03.15	Particulars	01.04.14 to 30.09.14	01.10.14 to 31.03.15
To Partners' Current A/c			By Profit & Loss A/c	1,56,000	1,56,000
Interest on Capital A/c - A	15,000	15,000	(Apportioned on		
Interest on Capital A/c - B	7,500	7,500	time basis)		
Interest on Capital A/c - C	9,000	--			

Suggested Answer_Syl12_Dec2015_Paper 5

To Interest on hire C's A/c (-12%)	--	13,668			
Partners' Current A/cs - A	49,800	59,916			
Partners' Current A/cs - B	37,350	59,916			
Partners' Current A/cs - C	37,350	--			
	1,56,000	1,56,000		1,56,000	1,56,000

4. Answer any two questions (Carrying 4 Marks each):

4×2=8

(a) The following information is extracted from a set of Books of MR. PARDIWALA, a Trader for the period ended June 30, 2015.

Particulars	Amount in (₹)
1st April 2015: Sales Ledger Balances	12,400
June 30, 2015:	
Sales (including Cash Sales – 4,000)	23,000
Cash Received from Customers	18,500
Bills Receivable received	4,000
Returns Inward	400
Bills endorsed to suppliers	500
Bills dishonoured	300
Bills Receivable discounted	500
Bad Debts written off	50
Transferred from Bought Ledger	150
Sundry charges debited to customers	20

Required:

Prepare Sales Ledger Adjustment Account in the General Ledger from the foregoing information. 4

(b) The following details were extracted from the books of M/S VIVAIN & CO. for 6 months ended March 31, 2015.

Particulars	Amount in (₹)
Creditors Balance on 01.10.2014	38,000
Credit Purchases during the period	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

Required:

Prepare Total CREDITORS Account as appearing in the General Ledger. 4

(c) KAVYA LTD. maintains self-balancing ledgers. On 31st March, 2015 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, 2014 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, 2014.

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

Suggested Answer_Syl12_Dec2015_Paper 5

Answer:

4. (a)

In the General Ledger of Mr. Pardiwala Sales Ledger Adjustment Account

Dr.			Cr.		
Date	Particulars	₹	Date	Particulars	₹
2015	To Balance b/d	12,400	2015	By General Ledger Adjustment A/c:	
June 30	To General Ledger Adjustment A/c:		June 30	Cash received	18,500
	Sales (Credit)	19,000		Bills receivable received	4,000
	Bills dishonoured	300		Bad debts	50
	Sundry charges debited to customer	20		Returns inward	400
				Transfer from bought ledger	150
				By Balance c/d	8,620
		31,720			31,720

Note: No entry is required for - Bills endorsed, Bills receivable dishonoured.

(b)

In the General Ledger of M/s Vivain & Co. Total Creditors Account - for six months ended 31.03.2015

Dr.			Cr.		
Date	Particulars	₹	Date	Particulars	₹
31.3.15	To Bills payable accepted	62,000	1.10.14	By Balance b/d	38,000
	To Cash paid to creditors	1,37,000	31.3.15	By Purchases (Credit)	2,67,000
	To B/R endorsed	16,000		By Endorsed B/R Dishonoured	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			
	Balance c/d	71,000			
		3,10,000			3,10,000

(c)

Kavya Ltd. Journal Entries

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
2015 March, 31 (i)	Meena (In Sales/Debtors Ledger) Dr. To Meenu (in Sales/Debtors Ledger) (Being amount received from Meena was wrongly credited to Meenu, 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
(ii)(b)	Sales/Debtors Ledger Adjustment A/c (in General Ledger) Dr. To General Ledger Adjustment A/c (in Sales/Debtors Ledger) (Being rectification of the errors resulting from under casting of the Sales Book)		1,000	1,000
(iii)(a)	M/s BPO Ltd. A/c (In Creditors/Bought Ledger) Dr. To Purchase Returns A/c (in General ledger)		15,600	15,600

Suggested Answer_Syl12_Dec2015_Paper 5

(iii)(b)	Creditors/Bought Ledger Adjustment A/c (in General Ledger) Dr. To General Ledger Adjustment A/c (in Creditors/Bought Ledger) (Being goods returned to supplier not recorded earlier, now recorded)	5,600	15,600
----------	--	-------	--------

5. Answer any two questions (Carrying 4 Marks each):

4 × 2 = 8

(a) MILTON LTD. sold goods worth ₹1,00,000 to NARMADA LTD. Narmada Ltd. asked for discount of ₹16,000 which was agreed by Milton Ltd. The sale was effected and Goods dispatched. After receiving, Goods Worth ₹14,000 was found defective, which they returned immediately. They made the payment of ₹70,000 to Milton Ltd. The accountant of Milton Ltd. booked the Sales for ₹70,000.

Discuss whether the accounting entry passed by the accountant of the company is correct? 4

(b) PRIMA CONSTRUCT LTD obtained a contract for construction of a bridge across river Hindan. The following details are available in the records kept for the year ended 31st March, 2015:

Particulars	(Amount ₹ in Lakh)
Total Contract Price	2,000
Work Certified	1,400
Work Not Certified	400
Estimated Further Cost to Completion	700
Progress Payments Received	1,000
Progress Payments in pipe line	200

Required:

Prima Construct Ltd. 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 short note on 'The Minutes of Usage (MOU)'. 4

Answer:

5. (a) As per Para 4.1 of AS-9 "Revenue Recognition", revenue is the gross inflow of cash, receivables or other consideration arising in the course of the ordinary activities of an enterprise from the sale of goods, from the rendering of service, and from the use by others of enterprise resources yielding interest, royalties and dividends.

In the given case, Milton Ltd. should record the sales at gross value of ₹1,00,000. Discount of ₹16,000 in price and goods returned worth ₹14,000 are to be adjusted by suitable provisions. Milton Ltd. might have sent the credit note of ₹ 30,000 to Narmada Ltd to account for these adjustments.

The contention of the accountant of Milton Ltd. to book the sales for ₹70,000 is not correct.

(b) (i) Calculation of anticipated Loss for the year ended March 31, 2015:

	Amount in ₹ lakh
Total estimated Cost of Construction (1400+400+700)	2,500
Less: Total Contract Price	2,000
Anticipated / Foreseeable Loss	500

Suggested Answer_Syl12_Dec2015_Paper 5

(ii) Contract WIP i.e. cost incurred to date:

	Amount in ₹ lakh
Work certified	1,400
Work not certified	400
Contract WIP i.e. cost incurred to date	1,800

(iii) Percentage of works completed = $(1,800/2,500) \times 100 = 72\%$

Revenue to be recognized till date (72% of ₹ 2,000 lakh) = ₹ 1,440 lakh

(iv) Expected Loss recognized:

	Amount in ₹ lakh
Contract Revenue (72% of ₹2,000)	1,440
Less: Contract Costs	1,800
Loss on Contract	360
Less: Further provision required in respect of expected loss	140(Bal Figure)
Expected Loss recognized	500

(v) Amount due from customers ₹[(1,800 – Nil – 500) – (1,000+200)] = ₹ 100 lakh

The relevant disclosures under AS-7 (Revised) are shown below:

	Amount in ₹ lakh
Contract Revenue	1,440
Contract Expenses	1,800
Expected Losses (as provided above)	140
Recognised Profits less Recognised Losses	(500)
Progress billing (1,000+200)	1,200
Retentions (Billed but not received from contractee)	200
Gross amount due from customer (contractee)	100

(c) "Minutes of Usage:

The Minutes of Usage is the total duration of minutes for which a customer uses a telecommunication network during a given month. In the recent days of mobile telecommunication in India, airtime rates were very high and a customer had to pay for incoming call also. During those days, the MOU ranged from 110 to 150 minutes per month, as customers were wary of making calls.

However, with falling rates, the MOU has steadily reduced. As on September 2005, the blended MOU was in the range of 367 minutes signifying a multi-fold increase in network utilization.

The MOU is also analysed between prepaid and postpaid services and further drilled down between incoming and outgoing. In the current billing system, a customer does not pay for any incoming calls. However, incoming calls bring in revenue for a telecom operator in the form of IUC charges (Interconnection Usage Charges) and paid by other service providers for terminating calls.

Suggested Answer_Syl12_Dec2015_Paper 5

6. Answer any two questions (Carrying 8 Marks each):

8 × 2 = 16

(a) On 1st April, 2014 MS BRISTI had 20000 Equity Shares in PIVOTALS LTD.

Face Value of the shares was ₹ 10 each but their book value was ₹ 16 per share.

On 1st September, 2014 MS Bristi purchased 5000 more equity shares in the company at a premium of ₹ 4 per share.

- On 30th September, 2014, the directors of Pivotal Ltd. announced a bonus. Bonus was declared at the rate of one equity share for every five shares held and these shares were received on 2nd November, 2014.
- On 10th November, 2014, the Directors of Pivotal Ltd. announced a Rights issue which entitles the shareholders to subscribe one share for every three shares held at ₹ 15 per share. Shareholders can transfer their rights in full or part.
- MS Bristi sold 50% of her entitlement to Mr. Ananth for a consideration of ₹ 1.50 per share and subscribed the rest on 31st December, 2014.
- On 1st February, 2015 MS Bristi sold 20000 equity shares at a premium of ₹ 3 per share.
- The Market Price of the share of Pivotal Ltd. on 31st March, 2015 was ₹ 13.

You are required to prepare Investment Account in the Books of MS Bristi for the year ended 31st March, 2015 and value of shares held on date. 7+1=8

(b) GOURU and GYANI were friends and in need of funds. On 1st April, 2015 Gouru drew a bill for ₹ 2,00,000 for three months on Gyani. On 4. 4.2015 Gouru got the bill discounted at 15% per annum and remitted half of the proceeds to Gyani. On the due date, Gyani could not meet the bill, instead, Gouru accepted Gyani's bill for ₹ 1,20,000 on 4th July, 2015 for two months. This was discounted by Gyani at 15% per annum and out this ₹ 19,500 was paid to Gouru after deducting ₹ 500 discounting charges. Due to financial crisis, Gouru became insolvent and the bill drawn on him was dishonoured and his estate paid 40%.

- Days of grace for discount purposes may be ignored.

Required:

(i) Give Journal Entries and

(ii) Prepare Gyani's Account – in the books of Gouru.

6+2=8

(c) JIBAN and MITRIK decided to work in joint venture with the following scheme, agreeing to share profits in the ratio of 2/3 and 1/3:

They guaranteed the subscription at par of 50 lakhs shares of ₹ 10 each in RAINBOW LTD. and to pay all expenses up to allotment in consideration of RAINBOW LTD. issuing to them 3,00,000 other shares of ₹ 10 each fully paid together with a commission @ 5% in cash which will be taken by JIBAN AND MITRIK in 3 : 2.

Co-ventures introduced cash as follows:

JIBAN:	Stamp charges, etc.	₹ 1,65,000
	Advertising charges	₹ 1,35,000
	Car expenses	₹ 1,54,000
	Printing charges	₹ 1,88,000
MITRIK:	Rent	₹ 1,30,000
	Solicitor's charges	₹ 80,000

Application fell short of the 50 lakhs shares by 1,20,000 shares and MITRIK introduced ₹ 12,00,000 for the purchase of those shares.

The guarantee having been fulfilled, Rainbow Ltd. handed over to the ventures 3,00,000 shares and also paid the Commission in cash. All their holdings were subsequently sold by the venture MITRIK receiving ₹ 12,50,000 and JIBAN ₹ 25,00,000.

Suggested Answer_Syl12_Dec2015_Paper 5

You are required to prepare the:

- (i) Memorandum Joint Venture Account and
(ii) Joint Venture Account with MITRIK – in the Books of JIBAN.

6+2=8

Answer:

6. (a)

**In the Book of MS BRISTI
Investment Account (Equity shares in Pivotal Ltd.)
For the year ended March 31, 2015**

Dr.					Cr.				
Date	Particulars	No. of Share	Income (₹)	Amount (₹)	Date	Particulars	No. of Share	Income (₹)	Amount (₹)
2014 April 1	To Balance b/d	20,000		3,20,000	2014 Dec. 31	By Bank A/c (Sale of Rights) 5000 @ ₹ 1.50		7,500	
Sept. 1	To Bank A/c	5,000		70,000	2015 Feb. 1	By Bank A/c	20,000		2,60,000
Nov. 2	To Bonus Issue	5,000		--	Feb. 1	By P&L A/c (Loss on sale)			5,714
Dec. 31	To Bank A/c (Right)	5,000		75,000	Mar. 31	By Balance c/d	15,000		1,95,000
2015 Feb. 1	To P&L A/c (Sale of Rights)		7,500	--	" "	By P&L A/c (Diminish in value)			4,286
		35,000	7,500	4,65,000			35,000	7,500	4,65,000
April 1	To Balance b/d	15,000		1,95,000					

Note:

		₹
1	Cost of shares sold – Amount paid for 35,000 shares (₹ 3,20,000+₹ 70,000+₹ 75,000)	4,65,000
	Cost of 35,000 shares	4,65,000
	Cost of 20,000 shares (Average cost basis)	2,65,714
	Sale proceeds	2,60,000
	Loss	5,714
2	Market Price being lower than the cost, shares is carried forward at market price – 15,000 × 13	1,95,000

(b)

**In the Book of Gauru
Journals Entries**

Date	Particulars	LF	Dr.(₹)	Cr.(₹)
2015 April 1	Bills Receivable A/c Dr. To Gyani A/c (Being the bill for ₹ 2,00,000 drawn on Gyani)		2,00,000	2,00,000
April 4	Bank A/c Dr. Discount on Bills A/c Dr. To Bills Receivable A/c (Being the bill discounted @ 15% per annum)		1,92,500 7,500	2,00,000
April 4	Gyani A/c Dr. To Bank A/c		1,00,000	96,250

Suggested Answer_Syl12_Dec2015_Paper 5

	To Discount on Bills A/c (Being all the proceeds sent to Gyani)			3,750
July 4	Gyani A/c To Bills Payable A/c (Being the 2 months bill drawn by Gyani accepted)	Dr.	1,20,000	1,20,000
July 4	Bank A/c Discount on Bills A/c To Gyani A/c (Being proceeds received from Gyani)	Dr. Dr.	19,500 500	20,000
Sept.7	Bills Payable A/c To Gyani A/c (Being the bill dishonoured drawn by Gyani)	Dr.	1,20,000	1,20,000
Sept.7	Gyani A/c To Bank A/c To Deficiency A/c (Being 40% payments made to Gyani and unpaid balance transferred to Deficiency A/c)	Dr.	1,20,000	48,000 72,000

Gyani Account

Dr.			Cr.	
Date	Particulars	₹	Particulars	₹
4.4.15	To Bank A/c	96,250	By Bills Receivable A/c	2,00,000
4.4.15	To Discount on bills A/c	3,750	By Bank A/c	19,500
4.7.15	To Bills Payable A/c	1,20,000	By Discount on bills A/c	500
7.7.15	To Bank A/c	48,000	By Bills payable A/c	1,20,000
7.7.15	To Deficiency A/c	72,000		
		3,40,000		3,40,000

(c)

Memorandum Joint Venture Account

Dr.			Cr.		
Date	Particulars	₹	Date	Particulars	₹
	To Mitrik:			By Jiban:	
	Cost of Shares	12,00,000		Commission (3/5)	15,00,000
	To Jiban:			By Mitrik:	
	Stamp changes	1,65,000		Commission (2/5)	10,00,000
	Advertising charges	1,35,000		By Jiban:	
	Printing charges	1,88,000		Sale proceeds of shares	25,00,000
	Car expenses	1,54,000		By Mitrik:	
	To Mitrik:			Sale proceeds of shares	12,50,000
	Rent	1,30,000			
	Solicitor's charges	80,000			
	To Profit on Venture Jiban (2/3) 27,98,667 Mitrik (1/3) 13,99,333	41,98,000			
		62,50,000			62,50,000

In the books of Jiban Joint Venture Account with Mitrik

Dr.			Cr.	
Particulars	₹	Particulars	₹	

Suggested Answer_Syl12_Dec2015_Paper 5

To Bank-Stamp, Adv. Car exp. & Printing	6,42,000	By Bank (Commission)	15,00,000
To Share of Profit	27,98,667	By Bank (Sale Proceeds of Shares)	25,00,000
To Bank (Remittance)	5,59,333		
	40,00,000		40,00,000

7. Answer any two questions (Carrying 8 marks each):

8×2=16

(a) The following details are extracted from the Books of HEAVEN FIRE INSURANCE CO. LTD. for the year ended March 31, 2015.

Particulars	(Amount in ₹ Lakh)
Claims Paid	440
Legal expenses regarding claim	9
Premiums received	1,200
Re-insurance Premiums paid	90
Commission	250
Expenses of Management	150
Provision against unexpired risk on 1st April, 2014	480
Claims unpaid on 1st April, 2014	40
Claims unpaid on 31.03.2015	70

Create Reserve for Unexpired Risk @ 40%.

Required:

Prepare the Revenue Account as per IRDA Regulations for the year ended March 31, 2015. 8

(b) The following is an extract from Trial Balance of VAISHNAVI BANK LTD. as at 31st March, 2015.

Particulars	₹	₹
Bills discounted	9,00,000	
Rebate on Bills discounted (as on 1st April, 2014)		44,320
Discount Received		2,11,416

An analysis of the Bills discounted and held on 31.03.2015 is as follows:

Sl. No.	Date of Bills	Amount (₹)	Period	Rate of Discount
(i)	5.01.2015	2,50,000	5 months	10%
(ii)	10.02.2015	1,50,000	4 months	9%
(iii)	25.02.2015	2,00,000	4 months	9%
(iv)	20.03.2015	3,00,000	3 months	8%

You are required to:

- (i) Calculate the amount of discount on bills to be credited to Profit and Loss Account for the year ended 31st March, 2015.
- (ii) Show the necessary Journal Entries in this respect. 6+2=8

(c) (i) From the following information of VIDYUT ELECTRICITY CO. LTD., an Electricity generation Project, CALCULATE:

(1) Depreciation and

(2) Advance against Depreciation upto the year 2014-15 as per Regulation 21 of the Central Electricity Regulatory Commission (Terms and Conditions of Tariff) Regulations 2004.

- Date of Commercial Operation of COD: 1st April, 2012
- Approved Opening Capital Cost as on 1st April, 2012: ₹10,00,000

Suggested Answer_Syl12_Dec2015_Paper 5

- Weighted average Rate of Depreciation: 5.20%
- Details of allowed Additional Capital, Repayment of loan and Weighted Average Rate of Interest on Loan are as follows:

(Amount in ₹)			
Year	2012-13	2013-14	2014-15
Additional Capital Expenditure (allowed)	70,000	20,000	15,000
Repayment of Loan	60,000	70,000	70,000
Weighted Average Rate of Interest on Loan	7.50%	7.60%	7.80%
			3+3=6

- (ii) State the justifications/reasons for which an immediate shift to the Optimized Depreciated Replacement Cost (ODRC) Method is not recommended. 2

Answer:

7. (a)

FORM B – RA

Name of the insurer: Heaven Fire Insurance Co. Ltd.
 Registration No. and Date of registration with the IRDA....
 Revenue Account for the year ended March 31, 2015

(Amount in ₹ lakh)		
Particulars	Schedule	Amount (₹)
1. Premium earned (net)	1	1,146
2. Other Income	-	
Interest, dividend and rent	-	
Total (A)		1,146
Claims Incurred	2	479
Commission	3	250
Operating expenses related to insurance business	4	150
Total (B)		879
Operating Profit (A – B)		267

Schedule 1: Premium earned (Net)	(₹ in lakh)
Premium received	1,200
Less: Re-insurance premium	90
Net premium	1,110
Adjustment for change in Reserve for unexpired risks (W.N) (444 - 480)	36
Total	1,146

Schedule 2: Claims Incurred	(₹ in lakh)
Claims paid including legal expenses (440 + 9)	449
Add: Claims outstanding at the end of the year	70
Less: Claims outstanding at the beginning of the year	(40)
Total	479

Schedule 3: Commission	(₹ in lakh)
Commission paid	250
Total	250

Schedule 4: Premium earned (Net)	(₹ in lakh)
Expenses for Management	150
Total	150

Suggested Answer_Syl12_Dec2015_Paper 5

Working Note:

Change in the provision for unexpired risk:	(₹ in lakh)
Unexpired risk reserve as on 31 st March, 2015 = 40% of 1,110	444
Less: Unexpired reserve as on 1 st April, 2014	<u>480</u>
Change in the provision for unexpired risk	(-) <u>36</u>

(b)

Calculation of Rebate on Bills discounted:

Bill amount (₹)	Due Date	Days after 31 st March, 2015	Discount rate	Amount (₹)
2,50,000	08.06.2015	30+31+ 8=69	10%	4,726
1,50,000	13.06.2015	30+31+13=74	9%	2,737
2,00,000	28.06.2015	30+31+28=89	9%	4,389
3,00,000	23.06.2015	30+31+23=84	8%	5,523
9,00,000	Rebate on bills discounted			17,375

Statement showing amount to be credited to Profit and Loss Account

Transfer from Rebate on bills discounted as on 1.04.2014	₹44,320
Add: Discount received during the year ended March 31, 2015	₹2,11,416
	₹2,55,736
Less: Rebate on bills discounted as on 31.03.2015	₹17,375
Amount credited to Profit and Loss A/c	₹2,38,361

Journal Entries

Particulars	Dr. Amount (₹)	Cr. Amount (₹)
Rebate on Bills Discounted A/c Dr.	44,320	
To, Discount on Bills A/c		44,320
(being transfer of Rebate on Bills Discounted on 01.04.2014 to Discount on Bills A/c)		
Discount on Bills A/c Dr.	17,375	
To, Rebate on Bills Discounted A/c		17,375
(Being the unexpired discount transferred to Rebate on Bills Discounted A/c)		
Discount on Bills A/c Dr.	2,38,361	
To, Profit and Loss A/c		2,38,361
(Being the amount of Discount on Bills transferred to Profit and Loss A/c)		

Alternative Journal Entries

Particulars	Dr. Amount (₹)	Cr. Amount (₹)
Rebate on Bills Discounted A/c Dr.	44,320	
To, Discount on Bills A/c		44,320
(being transfer of Rebate on Bills Discounted on 01.04.2014 to Discount on Bills A/c)		

Suggested Answer_Syl12_Dec2015_Paper 5

Discount on Bills A/c	Dr.	2,55,736	
To, Rebate on Bills Discounted A/c			17,375
To, Profit and Loss A/c			2,38,361
(Being the unexpired discount transferred to the Rebate on Bills Discounted A/c and balance transferred to Profit and Loss A/c)			

(c) (i)

VIDYUT ELECTRICITY CO. LTD.

A. Computation of Depreciation

		(Amount in ₹)		
	Particulars	2012-13	2013-14	2014-15
A	Opening Capital Cost	0,00,000	0,70,000	10,90,000
B	Additional Capital Cost	70,000	20,000	15,000
C	Closing Capital Cost	0,70,000	0,90,000	11,05,000
D	Average Capital Cost [(A+C)/2]	0,35,000	0,80,000	10,97,500
E	Weighted average rate of depreciation	5.20%	5.20%	5.20%
F	Annualized depreciation (D)×(E)	53,820	56,160	57,070
G	Advance against depreciation (ADD)	6,180	13,840	12,930
H	Total depreciation (including ADD) for tariff (F+G)	60,000	70,000	70,000

B. Computation of Depreciation

		(Amount in ₹)		
	Particulars	2012-13	2013-14	2014-15
A	Repayment of Loan (10% of loan amount)	60,000	70,000	70,000
B	Depreciation (Excluding AAD)	53,820	56,160	57,070
C	Difference between A&B (A-B)	6,180	13,840	12,930
D	Cumulative repayment of Loan	60,000	1,30,000	2,00,000
E	Cumulative Depreciation (Excluding AAD) at the beginning	53,820	1,09,980	1,67,050
F	Difference between D&E (D-E)	6,180	20,020	32,950
G	Advance against depreciation (AAD) (Minimum of C&F)	6,180	13,840	12,930

- (ii) An immediate shift to Optimized Depreciated Replacement Cost (ODRC) method is not recommended for the following reasons:
- Problems is producing detailed Asset Register;
 - Absence of norms for standard lives of assets;
 - Absence of construction cost estimates;
 - Lack of data on future load growth.