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):

(a) AAREEN LTD. deals in manufacture of Products A, B and C respectively. It provides the following information with respect to the Closing Stock of these items for the year ended March 31, 2015.

Stock Category	Historical Cost `	Net Realisable Value `
A	50,000	37,000
B	64,500	64,000
C	50,000	52,000

Calculate the value of inventories to be shown in the Balance Sheet as on March 31, 2015 as per requirements of AS-2. **2**

(b) On 1st April 2013, BINTEK LTD. purchased a second-hand machine at a cost of ` 1,20,000, and spent ` 30,000 on its installation. On 1st October, 2014, ` 5,000 was spent on repairs. Depreciation is to be provided @ 20 per cent per annum according to written down value method.
Calculate the amount of Depreciation for the year ended March 31, 2015. **2**

(c) The following details are extracted from the Accounts of TRIPLEX for the year ended March 31, 2015.

	(Amount in ` Lakh)
Share Capital:	
4000000 Equity Shares of ` 10 each	400
Reserve & Surplus	190
Profit before Tax	280
Provision for Tax	168

You are required to calculate Return on Net worth for the year ended March 31, 2015. **2**

(d) ANU and BINU are partners sharing Profit/Loss in the ratio of 3 : 2. They admit CHITRA into partnership for 1/6 share in the Profit which she acquired equally from the old partners.
Calculate the New Profit Sharing Ratios of the partners. **2**

(e) ANSU is a debtor of the firm by `1,000. His account is also in the creditors ledger because of his having supplied goods to the firm for ` 900.
You are required to pass the necessary transfer entries if the firm is maintaining accounts on sectional balancing system. 2

(f) State what are the components which are not included in the cost of internally generated software. 2

(g) Anup draws a bill for ` 4,000 on Binup. Binup accepts it and returns it to Anup. Anup endorses it over to Zitun. Zitun endorses it in favour of Chinu. On due date, the bill was honoured.
Pass Journal Entries in the book of Chinu. 2

(h) KETAN purchased 12% Debentures in PT LTD. for ` 5,20,000 on 1st July. The face value of these debentures were ` 5,00,000. Interest on Debentures falls due on 30th September and 31st March.
Compute the Cost of acquisition of Debentures. 2

(i) In INDIAN BANK, the doubtful assets (more than 3 years) as on 31.03.2015 is ` 5,000 lakhs. The value of security (including DICGC 100% cover of ` 500 lakhs) is ascertained at ` 2,500 lakhs.
How much provision must be made in the Books of Indian Bank towards doubtful assets? 2

(j) REVATHI ELECTRICITY COMPANY LTD. has incurred Capital expenditure of ` 200 lakhs having life of 10 years. 40% of the cost is Capital/Service line contribution by the customers.
Pass the Journal Entries in the Book of REVATHI Electricity Company Ltd. 2

Answer:

1. (a) According to para 5 of AS-2: valuation of inventories, inventories should be valued at lower of cost and net realizable value. Thus inventories should be valued as per item-wise as is given below:

Items	Historical Cost (`)	Net Realisable Value (`)	Valuation of Closing Stock (`)
A	50,000	37,000	37,000
B	64,500	64,000	64,000
C	50,000	52,000	50,000
			1,51,000

(b) Calculation of Depreciation for the year ended March 31, 2015:
20% (as per WDV) of [(1- 0.20)(1,20,000 + 30,000)]
= 20% of (0.80 × 1,50,000) = ` 24,000.

(c) Profit after Tax = 280 -168 = ` 112 lakh
Net Worth = Share Capital + Reserve & Surplus
= 400 + 190 = ` 590 lakh
Return on Net Worth = (112/590) x 100 = 18.98%

(d) Anu's new share = (3/5)- (1/6)x(1/2) = (3/5)- (1/12)= (36-5)/60= (31)/60
Binu's new share = (2/5)- (1/6)x(1/2) = (2/5)- (1/12)= (24-5)/60=(19/60)
Chitra's share = (1/6) = (10/60)
Hence, new profit and loss sharing Ratios of partners: (31/60):(19/60):(10/60)= 31:19:10.

(e)

Journal Entries

Particulars	Debit (`)	Credit (`)
Ansu (in the creditors ledger) Dr. To Ansu (in the Debtors ledger) (Being transferred of Account of Ansu of `900 from the Creditors' ledger to Debtors' Ledger)	900	900
Total Creditors Account Dr. To Total Debtors Account (Being transferred of consequential adjustment of Ansu's Account from Creditors' to Debtors' Ledger)	900	900

(f) The following are the Components which are not included in the cost of internally generated software:

(1) Selling, administration and other general overhead expenditure unless this expenditure can be directly attributable to the development of the software.
(2) Clearly identified inefficiencies and initial operating losses incurred before software achieves the planned performance; and
(3) Expenditure on training of the staff to use the internally generated software.

(g)

In the Books of Chinu
Journal Entries

Particulars	Debit (`)	Credit (`)
Bills Receivable A/c Dr. To Zitun A/c (Being the receipt of bill from Zitun)	4,000	4,000
Bank A/c Dr. To Bills Receivable A/c (Being the amount realized at maturity)	4,000	4,000

(h)

Computation of cost of Acquisition of Debentures

Particulars	`
Purchase price of Debentures (cum-interest)	5,20,000
Less: Interest from the last date of payment of interest to date of purchase: 500000 × 0.12 × (3/12).	15,000
Cost of Debentures at the time of Purchase	**5,05,000**

(i) Calculation of Provision for Doubtful Assets as on 31.03.2015:

Particulars	(Amount in ` lakh)
Doubtful Assets (more than 3 years)	5,000
Less: Value of Security (excluding DICGC Cover)	2,000
Less: DICGC Cover	500
Unsecured portion	2,500
Provision for unsecured portion (100%)	2,500
Provision for secured portion (100%)	2,000
Total provisions to be made	**4,500**

(j) Annual written off of service line contribution:
(8000000)/10 years = ` 800000 Journal Entries

Particulars	Debit (`)	Credit (`)
Bank A/c Dr. To Capital/Service line contribution A/c (Being the amount receipt from customers as cost of Capital/	8,00,000	8,00,000

Service line contribution)		
Capital/Service line contribution A/c Dr. To Profit and Loss A/c (Being the amount transferred to Profit and Loss Account)	8,00,000	 8,00,000

2. Answer any *two* questions (carrying 4 marks each):

(a) In taking out a Trial Balance of SUNFLAG LTD., a Book-keeper finds that the debit total exceeds the credit total by ` 352. The amount is placed to the credit of a newly opened Suspense Account. Subsequently the following mistakes were discovered.
You are required to pass the necessary entries for rectifying the mistakes,
(i) Sales Day Book was overcast by ` 100.
(ii) A sale of ` 50 to Shri Ram, was wrongly debited to Shri Krishna.
(iii) General Expenses ` 18 was posted as ` 80.
(iv) Cash received from Shri Govind was debited to his account ` 150.
(v) While carrying forward the total of one page of the Purchase Book to the next, the amount of ` 1,235 was entered as ` 1,325. 4

(b) SUNDER LAL & SONS find that the Bank Balance shown by their Pass Book on 30th November, 2015 is ` 20,000 (Debit) but the Cash Book shows a difference due to the following reasons:
(i) On 05.10.2015 Sunder Lal deposited a cheque for collection of ` 1,000 and made entry in Cash Book, appears in the Pass Book on 06-12-2015 as ` 990.
(ii) Cheques issued to parties but not presented for payment till 30.11.2015 are of ` 525, ` 835 and ` 900.
(iii) Cheques deposited for collection but not collected by bankers till 30.11.2015, ` 8,760 and ` 410.
(iv) Interest on investments collected by bankers on 30.11.2015, ` 955 entered in Cash Book on 04.12.2015 on receipt of bank intimation.
(v) Bank charges ` 90 (dated 27.11.2015) not entered in Cash Book.
(vi) Cheque deposited for collection on 30.11.2015 but returned dishonoured on 06.12.2015 of ` 945.
You are required to Prepare a Bank Reconciliation Statement as on 30.11.2015 from the foregoing information. 4

(c) GEMINI CONTROL LTD. obtained a loan from the Central Bank of India for ` 60 lakhs on 30.04.2014 to be utilized as under:

Construction of a shed	**`30 lakhs**
Purchase of Machinery	**`15 lakhs**
Working Capital	**`10 lakhs**
Advance for Purchase of truck	**`5 lakhs**

In March 2015, construction of shed was completed and machinery installed. Delivery of truck was not received. Total interest charged by the bank for the year ending 31.03.2015 was ` 9 lakhs.
Required: Show the treatment of Interest under AS-16. 4

Answer:

2. (a)

SUNFLAG LTD.
Journal Entries

Sl. No.	Particulars	Debit (`)	Credit (`)
(i)	Sales A/c Dr. To Suspense A/c (Being overcasting of sales day book rectified)	100	 100

(ii)	Shri Ram A/c Dr. To Shri Krishna A/c (Being the wrong debit given to Shri Krishna rectified)	50	50
(iii)	Suspense A/c Dr. To General Expenses A/c (Being rectification of the wrong posting made in General Expenses Account)	62	62
(iv)	Suspense A/c Dr. To Shri Govind A/c (Being rectification of the wrong debit given to Shri Govind)	300	300
(v)	Suspense A/c Dr. To Purchase A/c (Being rectification of the wrong carry forward in the Purchase Book)	90	90

(b)

In the Books of Sunder Lal & Sons
Bank reconciliation statement as at 30th November, 2015

Particulars	**(`)**	**(`)**
Overdraft as per Passbook (Debit balance)		20,000
Add: Cheques issued but not yet presented for payment (` 525+`835+`900)	2,260	
Add: Interest on investments collected by the Bank entered in the Cash Book after 30-11-15	955	3,215
		23,215
Less: Cheque of ` 1000 deposited but collected by the Bank after 30-11-15	1,000	
Less: Cheque deposited but collected by bank after 30.11.15 (` 8,760+` 410)	9,170	
Less: Bank charges not recorded in the Cash Book	90	
Less: Cheque deposited but returned as dishonoured on 06.12.2015	945	11,205
Overdraft as per Cash Book (credit balance)		12,010

(c) As per AS-16 borrowing cost (interest) should be capitalized if borrowing cost is directly attributable to the acquisition, construction or production of qualifying asset. In other words, asset acquired must be qualifying asset and borrowing cost should be directly attributable to the acquisition, construction or production of qualifying asset.

The Company obtained loan from Bank amounting ` 60 lakh and utilized for:

	`
Construction of a shed	30 lakh
Purchase of Machinery	15 lakh
Working Capital	10 lakh
Advance for Purchase of truck	5 lakh

Out of these four payments only construction of a shed of ` 30 lakh is a qualifying assets as per AS-16, other three payments are not for the qualifying asset. Therefore, borrowing cost (interest) attributable to the construction of a shed should only be capitalized which will be equal to (` 9 lakhs x 30/60) = ` 4.50 lakhs.

The balance of ` 4.50 lakhs (` 9 lakhs - ` 4.50 lakhs) should be expensed and debited to Profit and Loss Account.

3. **Answer any *two* questions (carrying 12 marks each):**

(a) A, B and C are partners in a firm sharing profits and losses as to 5 : 3 : 2. Their Balance Sheet as on 31st March, 2015 was as follows:

Balance Sheet as at 31st March, 2015

	`		`
Sundry Creditors	3,00,000	Cash in hand	80,000
General Reserve	1,60,000	Bills Receivable	1,00,000
Partners' Loan Accounts:		Sundry Debtors	1,20,000
A	80,000	Stock-in-trade	2,40,000
B	60,000	Furniture	40,000
Partners' Capital Accounts:		Buildings	5,20,000
A	2,00,000		
B	1,60,000		
C	1,40,000		
	11,00,000		11,00,000

They agree to change their profit sharing ratio as 6:5:5 from April 1, 2015. For this purpose, it is decided that:

(i) Furniture and Buildings be valued at ` 30,000 and ` 6,50,000 respectively.

(ii) A provision for bad debts be made @ 3 per cent on Sundry debtors and 6 per cent of bills receivable

(iii) The value of stock be reduced to ` 1,60,000.

(iv) The Goodwill of the firm is to be valued at two years' purchase of average net profits of the last five years, profit for these years being ` 40,000, ` 52,000, ` 64,000, ` 78,000 and ` 86,000 respectively.

The book value of the assets and liabilities is not to be altered.

Required:

(i) Pass Journal Entries to make adjustments in the partners' accounts.

(ii) Prepare the partner's Capital Accounts.

(iii) Prepare the New Balance Sheet as on April 1, 2015. 4+2+3+3=12

(b) EICHER LIMITED has its head office in Mumbai and a branch at Delhi. Branch keeps a debtors ledger and banks all cash received to the credit of Head Office Bank Account. Goods are invoiced to the Branch at cost plus $33\frac{1}{3}$ p.c. On 1st April, 2014, the commencement of the financial year the following balances appeared in the Head Office Ledger:

	`
Branch Debtors Account	1,50,000
Branch Stock Account (at selling price)	60,000
Branch Adjustment Account (Cr.)	15,000

The following were the transactions of the Branch during the year ended 31st March, 2015.

Cash Sales ` 75,000; Credit Sales ` 15,00,000; Goods from Head Office at selling price ` 18,00,000; Cash received from Branch Debtors ` 14,40,000; Discount allowed to Branch Debtors ` 36,900; Branch Expenses paid by Head Office ` 3,75,000.

The Stock at the Branch on 31st March, 2015 was ` 2,40,000 at selling price.

Required:

Prepare the following Ledger Accounts relating to Branch transactions, in the books of

the Head Office according to Stock and Debtors' System for the year ended March 31, 2015.
(i) Branch Stock Account
(ii) Branch Debtors Account
(iii) Branch Expenses Account
(iv) Branch Adjustment Account
(v) Branch Profit and Loss Account 4+3+1+2+2=12

(c) The Income and Expenditure Account of the MUMBAI CLUB for the year ended 31st March, 2015 is as follows:

Expenditure	`	Income	`
To Salaries	1,20,000	By Subscriptions	1,70,000
`` Printing and Stationery	6,000	`` Entrance Fee	4,000
`` Postage	500	`` Contribution for Dinner	36,000
``Telephone	1,500		
`` General Expenses	12,000		
`` Interest and Bank Changes	5,500		
`` Audit Fees	2,500		
`` Annual Dinner Expenses	25,000		
`` Depreciation	7,000		
`` Surplus	30,000		
	2,10,000		2,10,000

The account has been prepared after the following adjustments:

	`
Subscriptions outstanding on 31.03.2014	16,000
Subscriptions outstanding on 31.03.2015	18,000
Subscriptions received in advance on 31.03.2014	13,000
Subscriptions received in advance on 31.03.2015	8,400
Salaries outstanding on 31.03.2014	6,000
Salaries outstanding on 31.03.2015	8,000
Audit fees for 2013-14 paid during the year	2,000
Audit fees for 2014-15 not paid	2,500
The club owned a building since 31.03.2014	1,90,000
The club had sports equipments on 31.03.2014 valued at	52,000
Valued at the end of the year after depreciation of ` 7,000 sport equipments amounted to	63,000
In the year 2013-14 the club had raised a bank loan which is still not paid	30,000
Cash in hand on 31.03.2015	28,500
Cash in hand on 31.03.2014	13,600
Capital Fund as on 31.03.2014	2,20,600

Required:
(i) Prepare the Receipts and Payments Account of the Club for the year ended 31st March, 2015.
(ii) Prepare the Balance Sheet as on 31st March, 2015. 5+4+3=12.

Answer:

3. (a) (i)

AB & C Partnership Firm
Journal Entries

Date	Particulars		Dr. (`)	Cr. (`)
2015	Memorandum Revaluation A/c	Dr.	99,600	
April	To Provision for Bad Debts A/c (3600+6000)			9,600
1	To Furniture A/c			10,000
	To Stock in Trade A/c			80,000

	(Provision for bad debts made and decrease in value of furniture and stock)		
April 1	Buildings A/c Dr. To Memorandum Revaluation A/c (Increase in value of Buildings)	1,30,000	 1,30,000
April 1	Memorandum Revaluation A/c Dr. To A's Capital A/c To B's Capital A/c To C's Capital A/c (Profit on revaluation of assets credited to partners' capital A/c's in old ratio)	30,400	 15,200 9,120 6,080
April 1	A's Capital A/c Dr. B's Capital A/c Dr. C's Capital A/c Dr. To Memorandum Revaluation A/c (Memorandum Revaluation Account closed by transferring the amounts to partners' capital accounts in new profit-sharing ratio)	11,400 9,500 9,500	 30,400
April 1	Goodwill A/c Dr. To A's Capital A/c To B's Capital A/c To C's Capital A/c (Goodwill account raised in books by by transferring the amounts to partners' capital accounts in old profit-sharing ratio)	1,28,000	 64,000 38,400 25,600
April 1	A's Capital A/c Dr. B's Capital A/c Dr. C's Capital A/c Dr. To Goodwill A/c (Goodwill account closed by by transferring the amounts to partners' capital accounts in new profit-sharing ratio)	48,000 40,000 40,000	 1,28,000
April 1	B's Capital A/c Dr. C's Capital A/c Dr. To A's Capital A/c (Adjustment for general reserve made on account of change in profit-sharing ratio)	2,000 18,000	 20,000

(ii)

Partners' Capital Accounts

Dr. **Cr.**

Particulars	A	B	C	Particulars	A	B	C
To Memorandum Revaluation A/c	11,400	9,500	9,500	By Balance b/d	2,00,000	1,60,000	1,40,000
To Goodwill A/c	48,000	40,000	40,000	By Memorandum Revaluation A/c	15,200	9,120	6,080
To A's capital A/c	-	2,000	18,000	By Goodwill A/c	64,000	38,400	25,600
To Balance c/d	2,39,800	1,56,020	1,04,180	By B's Capital A/c	2,000	-	-
				By C's Capital A/c	18,000	-	-
	2,99,200	2,07,520	1,71,680		2,99,200	2,07,520	1,71,680

(iii)

Balance Sheet as at April 1, 2015

Liabilities	`	Assets	`
Sundry Creditors	3,00,000	Cash in hand	80,000
General Reserve	1,60,000	Bills receivable	1,00,000
Partners' Loan Accounts		Sundry debtors	1,20,000

A	80,000	Stock in trade	2,40,000
B	60,000	Furniture	40,000
Partners' Capital Accounts		Buildings	5,20,000
A	2,39,800		
B	1,56,020		
C	1,04,180		
	11,00,000		11,00,000

Working Notes:

(1) Valuation of Goodwill:

Average profit = $\frac{(40,000+52,000+64,000+78,000+86,000)}{5}$ = ` 64,000.

Goodwill = ` 64,000 × 2 = ` 1,28,000.

(2) Amount adjustable for General Reserve:

Particulars	A (`)	B (`)	C (`)
General Reserve `160000 credited in old ratio (Cr.) 5:3:2	80000	48000	32000
Less: General Reserve debited in new ratio (Dr.) 6:5:5	60000	50000	50000
Net adjustment for General Reserve.	20000	2000	18000
	(Cr.)	(Dr.)	(Dr.)

(b)

Either Limited

Branch Stock Account

Dr. **Cr.**

Particulars	`	Particulars	`
To Balance b/d	60,000	By Cash (Sales)	75,000
To Goods sent to Branch A/c	18,00,000	By Branch Debtors A/c	15,00,000
		By Branch Adjustment A/c (Loading of shortage)	11,250
		By Branch Profit & Loss A/c (Cost of shortage)	33,750
		By Balance c/d	2,40,000
	18,60,000		18,60,000

Branch Debtors Account

Dr. **Cr.**

Particulars	`	Particulars	`
To Balance b/d	1,50,000	By Cash A/c	14,40,000
To Branch Stock A/c	15,00,000	By Branch Expenses A/c (discount)	36,900
		By Balance c/d	1,73,100
	16,50,000		16,50,000

Branch Expenses Account

Dr. **Cr.**

Particulars	`	Particulars	`
To Branch Debtors A/c	36,900	By Branch Profit & Loss A/c	4,11,900
To Cash A/c	3,75,000		
	4,11,900		4,11,900

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Branch Adjustment Account

Dr. **Cr.**

Particulars	`	Particulars	`
To Stock Reserve A/c (Closing Stock)	60,000	By Stock Reserve A/c (Opening Stock)	15,000
To Branch Stock A/c (Loading of shortage)	11,250	By Goods sent to Branch A/c	4,50,000
To Branch P&L A/c (Gross profit)	3,93,750		
	4,65,000		4,65,000

Branch Profit And Loss Account

Dr. **Cr.**

Particulars	`	Particulars	`
To Branch Expenses A/c	4,11,900	By Branch Adjustment A/c	3,93,750
To Branch stock A/c (cost of shortage)	33,750	By Net Loss transferred to General P& L A/c	51,900
	4,45,650		4,45,650

(c)

Mumbai Club
Receipts & Payments Account
for the year ending 31st March, 2015

Dr. **Cr.**

Receipts	`	Payments	`
To Balance b/d	13,600	By Salaries A/c	1,18,000
To Subscriptions A/c	1,63,400	By Printing & Stationery A/c	6,000
To Entrance Fees A/c	4,000	By Postage A/c	500
ToContribution for Annual Dinner A/c	36,000	By Telephone A/c	1,500
		By General Expenses A/c	12,000
		By Audit Fees A/c	2,000
		By Annual Dinner Expenditures A/c	25,000
		By Interest & Bank Charges A/c	5,500
		By Sports Equipment A/c	18,000
		By Balance c/d	28,500
	2,17,000		2,17,000

Mumbai Club
Balance Sheet as on 31st March, 2015

Dr. **Cr.**

Liabilities		Amount	Assets		Amount
		`			`
Capital Fund			Fixed Assets:		
Opening Balance	2,20,600		Building		1,90,000
Add: Excess of Income			Sports Equipment:		
Over Expenditure	30,000	2,50,600	Opening Balance	52,000	
Bank Loan		30,000	Addition	18,000	
Current Liabilities:				70,000	
Expenses for creditors:			Less: Dep.	7,000	63,000
Salaries	8,000		Current Assets:		
Audit Fee	2,500	10,500	Cash in hand		28,500
Subscription received in Advance		8,400	Subscription outstanding		18,000
		2,99,500			2,99,500

Working Notes:

(i)

Subscriptions Account

Dr. **Cr.**

Particulars	`	Particulars	`
To Subscription Outstanding on 31.03.14	16,000	By Bank (Balancing figure)	1,63,400
To Subscription received in Advance on 31.03.15	8,400	By Subscription received in advance on 31.03.14	13,000
To Income & Expenditure A/c	1,70,000	By Subscriptions outstanding on 31.03.15	18,000
	1,94,400		1,94,400

(ii)

Salaries Account

Dr. **Cr.**

Particulars	`	Particulars	`
To Bank (Bal. fig.)	1,18,000	By Income & Exp. A/c	1,20,000
To Salaries Outstanding on 31.03.15	8,000	By Salaries O/s on 31.03.14	6,000
	1,26,000		1,26,000

(iii)

Sports Equipments Account

Dr. **Cr.**

Particulars	`	Particulars	`
To Balance b/d	52,000	By Depreciation	7,000
To Bank (Bal. fig)	18,000	By Balance c/d	63,000
	70,000		70,000

4. Answer any *two* questions (carrying 4 marks each):

(a) PIONEERS LTD. maintains self-balancing ledgers. On 31st March, 2015, the Accountant of the Company detected the following errors in the books of the Account.

(i) Purchase Day Book was undercast by ` 500.

(ii) Sales Day Book was undercast by ` 600.

(iii) A cheque of ` 2,000 issued to Anusua & Co. was recorded as have been issued to K. M. Kar & Co.

(iv) Goods worth ` 500 returned by Das & Co., were entered in the Day Book as ` 5,000.

You are required to show all the Journal Entries necessary to rectify the above errors. **4**

(b) Below are given particulars from the Sales Ledger of MR. ABRAHAM a trader, for the month of March, 2015:

Date	Particulars	Amount
March 1, 2015	**Opening Balance**	**31,000**
`` 31, 2015	**Total Sales for the month**	**91,000**
	Sales Return	**1,500**
	Cash received from debtors	**41,000**
	Bills Receivable	**16,000**
	Bills dishonoured	**2,500**
	Discount allowed to debtors	**1,400**
	Bad debts	**1,350**
	Transfer from another ledger	**1,750**

You are required to prepare the General Ledger Adjustment Account which would appear in the Sales Ledger as on March 31, 2015. 4

(c) The following material details were extracted from the books of NAGESH & CO. (P) LTD. for the year ended March 31, 2015:

	`
Opening Balance of Creditors (as on April 1, 2014)	**4,00,000**
Payments to creditors	**3,00,000**
Total Purchases included cash purchases of ` 60,000	**3,10,000**
Discount received	**10,000**
Bills Payable	**50,000**
B/R endorsed to Creditors	**10,000**
Transfer from Debtors Ledger to Creditors Ledger	**10,000**

Your are required to prepare Total Creditors Account as would appear at the end in the General Ledger. 4

Answer:

4. (a)

Pioneers Ltd.
Journal Entries

Date	Particulars	Dr. (`)	Cr. (`)
(i) 2015 March, 31	Purchase A/c Dr. To Suspense A/c (Being the undercasting in Purchase Day Book, now rectified)	500	 500
	General Ledger Adjustment A/c (in the Creditors Ledger) Dr. To Creditors Ledger Adjustment A/c (in the General Ledger) (Being the necessary adjustment for undercasting error in the Purchases Day Book)	500	 500
(ii)	Suspense A/c Dr. To Sales A/c (Being the undercasting in Sales Day Book, now rectified)	600	 600
	Debtors Ledger Adjustment A/c (in the General ledger) Dr. To Generals Ledger Adjustment A/c (in the Debtors Ledger) (Being the adjustment for undercasting error in the Sales Day Book)	600	 600
(iii)	Anusua & Co A/c Dr. To K.M. Kar & Co. A/c (Being cheque issued to Ansua & Co. wrongly debited to K.M. Kar & Co. now rectified)	2,000	 2,000
(iv)	Das & Co A/c Dr. To Returns Inwards A/c (Being goods worth ` 500 returned by Das & Co were entered in the Day Book as `5,000 now rectified)	4500	 4500
	Debtors Ledger Adjustment A/c (in the General Ledger) Dr. To Generals Ledger Adjustment A/c (in the Debtors Ledger) (Being adjustment for excess credit to Debtors for goods returned)	4500	 4500

(b)

Mr. Abraham
General Ledger Adjustment Accounts in Sales Ledger

Dr. **Cr.**

Date	Particulars	`	Date	Particulars	`
2015	To Sales Ledg. Adj. Account:		2015	By Balance b/d	31,000
Mar.,	Sales Return	1,500	Mar.,1	By Sales Led. Adj. A/c:	
31	Cash (received from debtors)	41,000	Mar.,	Sales	91,000
	Bills Receivable	16,000	31	Bills Receivable Dishonoured	2,500
	Discount	1,400			
	Bad Debts	1,350			
	Transfer from another Ledger	1,750			
	To Balance c/d	61,500			
		1,24,500			1,24,500

(c)

In the General Ledger of Nagesh & Co. (P) Ltd.
Total Creditors Account for the year ending 31st March, 2015

Dr. **Cr.**

Date	Particulars	`	Date	Particulars	`
2015	To Cash	3,00,000	2014	By Balance b/d	4,00,000
Mar,31	To Discount received	10,000	Apr,1		
	To Transfer (from Debtors ledger to Creditors ledger)	10,000	2015 Mar'31	By Purchase [excluding Cash Purchase i.e. (3,10,000-60,000)]	2,50,000
	To Bills Payable	50,000			
	To B/R endorsed to creditors	10,000			
	To Balance c/d	2,70,000			
		6,50,000			6,50,000

5. Answer any *two* questions (carrying 4 marks each):

(a) AMTEK CONSTRUCTION LTD. obtained a contract for completion of bridges across river Revathi. The following details are available in the records kept for the year ended March 31, 2015.

Particulars	Amount in ` lakh
Contract Price (fixed)	**1,200**
Cost incurred to date	**750**
Estimated cost to complete	**500**

Required:
Show Profit and Loss Account (Extract) as would appear in the books of Amtek Construction Ltd. following Accounting Standard-7. **4**

(b) EVERGREEN IN LTD. has taken a transit Insurance Policy. Suddenly, in the year 2014-15, the percentage of accident has gone upto 7% and the company wants to recognize Insurance claim as revenue in 2014-15.
In accordance with relevant accounting standard (AS-9) do you agree with the same? **4**

(c) Discuss the Development Stage of an internally Generated Software. **4**

Answer:

5. (a)

AMTEK CONSTRUCTION LTD.
Calculation of Estimated Total Cost

(Amount in ` lakh)

Cost incurred to date	750
Estimated cost to completion	500
Estimated total cost in completing the contract	1250

Percentage of completion (750/1250)×100 = 60%
Revenue recognized as a percentage to contract price: 60% of 1200= `720 lakh. As per para 35 of AS-7 Construction Contracts, when it is probable that total contract costs will exceed total contract revenue, the expected loss should be recognized as an expense immediately. Accordingly, expenses to be recognized in the Profit and Loss Account will be

Particulars	(Amount in ` lakh)
Total foreseeable loss (1250 -1200)	50
Less: Loss for the current year (750 -720)	(30)
Expected Loss to be recognized immediately as per Para 35 of AS-7	20

Profit and Loss Account (Extract) for the year ended March 31, 2015

(Amount in ` lakh)

To Construction cost	750	By Contract price	720
To Estimated loss on Completion of Contract	20		-
	?		?

(b) As per AS-9 where the ability to assess the ultimate collection with reasonable certainty is lacking at the time of raising any claim, revenue recognition is postponed to the extent of uncertainty involved. In such cases, it may be appropriate to recognize revenue only when it is reasonably certain that the ultimate collection will be made. Where there is no uncertainty as to ultimate collections, revenue is recognized at the time of sale or rendering services. Moreover, consideration receivable should reasonably be determinable. Revenue recognition is postponed if not determinable within a reasonable limit. Thus, in this case, since there are uncertainties, recognition of revenue should be postponed by the company (Evergreen in Ltd.)

(c) 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 functioned need.
- The intention to complete the internally generated software can be demonstrated if the enterprise commits to the funding of the software project:
  - (i) The technical feasibility of installing the internally generated software;
  - (ii) The ability of the enterprise to use the software;
  - (iii) The probable usefulness of and economic benefits from the software;
  - (iv) The availability of adequate technical, financial and other resources to complete the development and to use the software; and
  - (v) The capacity to measure the expenditure attributable to the software during its development.

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

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

6. Answer any *two* questions (carrying 8 marks each):

(a) ANAND and BIKRAM entered into a joint venture of plucking and selling apples. They bought all the fruits in the 2014 season in the High Orchard at Kotgarh, paying ` 30,000 to the owner on August 1, 2014. Labour was engaged to pluck the fruit for which a sum of ` 5,000 was paid spread over a period of 2 months. Anand paid for the fruit as well as labour expenses.
The fruit was despatched to Bikram in Delhi who sold it for ` 60,000. The sale proceeds were collected over the period of two months. At the end of the season some fruits were sold locally by Anand for ` 3,000. Settlement of accounts was made on October 31, 2014.
After (1) reckoning interest @ 12% p.a. for money invested as well as received, (2) allowing 5% commission to Bikram on Sales made by him and (3) Salary of ` 1,000 p.m. to Anand for the season, the balance was to be divided equally.
Your are required to
(i) Prepare Memorandum Joint Venture Account, and
(ii) Joint Venture Account with Bikram in the Books of Anand. 4+2+2=8

(b) A fire occurred on 1st July, 2014 in the premises of AROLITE LTD. and business was practically disorganised up to 30th November, 2014. From the books of account, the following information was extracted:

	`
Actual turnover from 1st July, 2013 to November 2014	90,000
Turnover from 1st July to 30th November, 2013	3,50,000
Net Profit for the last financial year	1,35,000
Insured Standing Charges for the last financial year	90,000
Turnover for the last financial	7,50,000
Turnover for the year ending 30th June, 2014	8,00,000
Total Standing Charges for the year	1,10,000

The company incurred additional expenses amounting to ` 19,000 which reduced the loss in turnover. There was also a saving during the indemnity period of ` 5,250.
The company holds a "Loss of Profit" policy for ` 2,50,000 having an indemnity period for 6 months. There has been a considerable increase in trade and it had been agreed that an adjustment of 25% be made in respect of upward trend in turnover.'
You are required to compute the amount of claim under the Loss of Profit Policy.
4+2+2=8

(c) On 1st January, 2015 VINOD drew and PRAMOD accepted a bill at three months for ` 2,000. On 4th January, 2015 Vinod discounted the bill with his bank at 15% p.a. and remitted half the proceeds to Pramod. On 1st February, 2015 Pramod drew and Vinod accepted a bill at four months for ` 1,500. On 4th February, 2015 Pramod discounted the bill at 15% p.a., with his bank and remitted half the proceeds to Vinod. They agreed to share the discount equally.
At maturity Vinod met his acceptance, but Pramod dishonoured his and Vinod had to pay the bill. Vinod drew and Pramod accepted a new bill at three months for the original bill plus interest at 18% p.a. On 1st July, 2015 Pramod became insolvent and only 50 paise in the rupee was received from him.
Note: Days of grace for discount purpose may be ignored.
Required:
(i) Give Journal Entries, and

(ii) Prepare Pramod's Account— in the books of Vinod. **6+2=8**

Answer:

6. (a)

ANAND & BIKRAM
Memorandum Joint Venture Account

Dr. **Cr.**

Particulars	`	`	Particulars	`
To Anand			By Bikram (Sales)	60,000
Payment for fruit	30,000		By Anand (Local Sales)	3,000
Labour charges	5,000		By Bikram Interest) (2)	1,200
Salary for 2 months	2,000			
Interest (1)	970	37,970		
To Bikram: (Commission 5% on sales ` 60,000)		3,000		
To Profit transferred to				
Anand				
Bikram	11,615			
	11,615	23,230		
		64,200		64,200

In the Books of Anand
Joint Venture Account with Bikram

Dr. **Cr.**

Date	Particulars	`	Date	Particulars	`
2014			2014		
Aug1	To Bank Account	30,000	Sept.30	By Bank A/c	3,000
Aug1			Oct.31	By Bank Account	46,585
To					
Sept.30	To Bank A/c (Labour)	5,000			
Oct.31	To Salary Account	2,000			
Oct. 31	To Interest A/c	970			
Oct.31	To Profit & Loss A/c (Share of Profit)	11,615			
		49,585			49,585

Working Notes:

(1)	Interest payable to Anand is calculated as follows:	`
	Amount paid for purchase of fruits is invested for 3 months i.e. August 1 to October 31, 2014 (`30,000 × 0.12 × 3/12)	900
	Amount paid to labour is spread during 2 months (i.e. August 1 to September 30)- the period of season. Therefore, on an average amount is invested for one month (2 months/2) during the period of season. Full month of October is also to be taken because the amount was settled on October 31. Therefore, interest is calculated for 2 months on labour, i.e. (5,000x0.12x2/12)	100
		1,000
	Less: Interest on amount received back on account of local sales on September 30, 2014 for 1 month from September 30 to October 31 i.e. $(3,000 \times 0.12 \times \frac{1}{12})$	30
		970
(2)	Interest payable by Bikram is calculated as follows: Amount collected by Bikram account of sales during the period of season of 2 months. The period of 2 months of season is to be treated as one month on an	

	average because all the amount is not received on the first day of the season but it is received throughout the period of season. One month of October is to be taken. Therefore, interest for 2 months is calculated, i.e. $(60,000 \times 0.12 \times \frac{1}{12})$	1,200

(b)

Arolite Ltd.

Calculation of claim for Loss of Profit:

Short Sales	`
Standard turnover: Sales from 1st July to 30th Nov. 2013	3,50,000
Add: 25% for increase in sales	87,500
Standard Sales 01.07.2014 to 30.11.2014	4,37,500
Less: Actual sales during the indemnity period i.e. 1st July to 30th Nov.14	90,000
Short Sales	3,47,500
Gross profit on short sales @ 30%	1,04,250

Additional expenses will be allowed lowest of the following:

	Particulars	`
(i)	Actual expenses	19,000
(ii)	Gross profit on additional sales i.e.30% of `90,000	27,000
(iii)	Additional Expenses (Gross Profit on Adjusted annual Turnover)/ (Gross Profit on Adjusted Annual Turnover + Unsecured Standing Charges) = `19,000 × ` (3,00,000)/ `(3,00,000+20,000)	17,812
		1,22,062
	Less: Savings in Expenses	5,250
	Claim subject to Average Clause	1,16,812

Application of Average Clause:
Claim = Amount of claim × (Amount of Policy / G.P. on Adjusted Annual Turnover)
= `1,16,812 × ` (2,50,000/3,00,000) = ` 97,343.

Working Notes:
Rates of Gross Profit

	Particulars	`
(i)	Sales in the last financial year	7,50,000
(ii)	Net Profit + insured standing charges of last financial year	2,25,000
(iii)	Rate of Gross Profit:	30%
(iv)	G.P. on Adjusted Annual Turnover = 30% of `10,00,000 (i.e. ` 8,00,000 + 25%)	3,00,000

Alternative Answer to Question No. 6 (b)

Calculation of Claim for Loss of Profit:

Short Sales	`
Standard turnover: Sales from 1st July to 30th Nov. 2013	3,50,000
Add: 25% for increase in sales	87,500
Standard Sales 01.07.2014 to 30.11.2014	4,37,500
Less: Actual sales during the indemnity period i.e. 1st July to 30th Nov.14	90,000
Short Sales	3,47,500
Gross profit on short sales @ 30%	1,04,250

Additional expenses will be allowed lowest of the following:

	Particulars	`
(i)	Actual expenses	19,000

(ii)	Gross profit on additional sales 30% of 90,000	27,000
(iii)	Additional Expenses × (Net Profit + Insured Standing Charges)/ (Net Profit + All Standing Charges) = `19,000 × ` (2,25,000)/ `(2,45,000)	17,449
		1,21,699
	Less: Savings in Expenses	5,250
	Claim subject to Average Clause	1,16,449

Application of Average Clause:
Claim = Amount of claim × (Amount of Policy / G.P. on Adjusted Annual Turnover)
= `1,16,449 × ` (2,50,000/3,00,000) = ` 97,041.

(c) (i)

In the books of VINOD
Journal Entries

Date	Particulars	LF	Dr. (`)	Cr. (`)
2015 Jan 1	Bills Receivable A/c Dr. To Pramod A/c (Being a bill drawn on Pramod for 3 months for mutual accommodation)		2,000	2,000
Jan.4	Bank A/c Dr. Discount on Bills A/c Dr. To Bills receivable A/c (Being the bill discounted with the banker @ 15% p.a.)		1,925 75	2,000
Jan.4	Pramod A/c Dr. To Bank A/c To Discount on Bills A/c (Being 50% of the proceeds of the bill remitted to Pramod)		1,000	962.50 37.50
Feb.1	Pramod A/c Dr. To Bills Payable A/c (Being the acceptance from Pramod for mutual accommodation)		1,500	1,500
Feb.4	Bank A/c Dr. Discount on Bills A/c Dr. To Pramod A/c (Being the receipt of 50% proceeds of the bill from Pramod)		712.50 37.50	750
April 4	Pramod A/c Dr. To Bank A/c (Being the bill discounted at maturity)		2,000	2,000
April 4	Pramod A/c Dr. To Interest A/c (Being the interest charged on ` 2000 @ 18% p.a. for 3 months)		90	90
April 4	Bills Receivable A/c Dr. To Pramod A/c (Being a new bill drawn on Pramod for 3 months)		2,090	2,090
June 4	Bills Payable A/c Dr. To Bank A/c (Being the bill honoured at maturity)		1,500	1500
July 1	Pramod A/c Dr. To Bills Receivable A/c (Being the bill dishonoured on Pramod's insolvency)		2,090	2,090

July 1	Bank A/c Dr.		920	
	Bad Debts A/c Dr.		920	
	To Pramod A/c			1,840
	(Being 50% of the amount due from Pramod received in full settlement)			

(ii)

Dr. **Pramod Account** **Cr.**

Date	Particulars	`	Date	Particulars	`
4.1.15	To Bank A/c	962.50	**1.1.15**	By Bills Receivable A/c	2000.00
4.1.15	To Discount on Bills A/c	37.50	**4.2.15**	By Bank A/c	712.50
1.2.15	To Bills payable A/c	1500.00	**4.2.15**	By Discount on Bills A/c	37.50
4.4.15	To Bank A/c	2000.00	**4.4.15**	By Bills Receivable A/c	2090.00
4.4.15	To Interest A/c	90.00	**1.7.15**	By Bank A/c (50% of the amount due)	920.00
1.7.15	To Bills Receivable A/c	2090.00	**1.7.15**	By Bad Debts A/c	920.00
		6680.00			**6680.00**

Note: It is assumed that actual turnover is from July 2014 to November 2014.

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

(a) The following details are extracted from the books of JAMUNA BANK LTD. for the year ended March 31, 2015:

(1) Packing Credit Outstanding from Food Processors ` 108 Lakh against which the bank holds securities worth ` 27 lakh. 50% of the said advance is covered by ECGC. This advance has remained Doubtful for more than 3 years.

(2) Other advances:

Assets Classification	**Amount in ` lakh**
Standard	**5,400**
Sub-standard	**3,960**
Doubtful:	
For one year	**1,620**
For two years	**1,080**
For three years	**720**
For more than three years	**540**
Loss assets	**1,080**

Required:

Find out the amount of Provisions required to be made in the Profit & Loss Account of Jamuna Bank Ltd. for the year ended March 31, 2015. **3+5=8**

(b) (i) Discuss the Constitution of Central Electricity Authority. **2**

(ii) The following details are extracted from the records of DIVYA POWER GENERATION PROJECT LTD.:

- **Name of the Power Station : Divya Power Generation Project Ltd.**
- **Date of Commercial Operation / Work completed date : January 15, 1997.**
- **Beginning of current year : April 1, 2012.**
- **Useful life : 35 Years**

Particulars	**Amount in ` Crore**
Capital Cost at beginning of the year 2012-13	**190.00**
Additional Capitalisation during the year	
2013-14	**9.04**
2014-15	**25.20**
Value of Freehold Land	**10.27**
Depreciation recovered upto 2011-12	**46.22**

Note: Capital Cost and accumulated Depreciation at the beginning of the year are as per Tariff order, Financial Year 2012-13.
You are required to calculate:
(1) Average Capital Cost
(2) Annual depreciation—up to the year 2014-15 as per 2009 Regulations. 6

(c) The following balances are extracted from the Books of MEGA FIRE INSURANCE CO. LTD. for the year ended March 31, 2015.

Particulars	Amount in ` lakh
Premiums received	**1,880.00**
Re-insurance Premiums Paid	**125.00**
Commission Paid	**62.00**
Expenses of Management	**375.50**
Claims paid	**1,027.25**
Legal expenses regarding claims	**0.50**
Claims unpaid as on 1st April, 2014	**110.50**
Claims unpaid as on 31st March, 2015	**120.25**
Interest and Rent received	**25.00**
Provision against unexpired Risk as on 1st April, 2014	**802.50**

Note: Create Reserve for unexpired risk @ 50%
You are required to prepare the Revenue Account as per IRDA Regulations for the year ended March 31, 2015. 8

Answer:

7. (a)

JAMUNA BANK LTD.
Calculation of Provision

(Amount in ` lakh)

Particulars	`	`
Amount outstanding (packing credit)	108.00	
Less: Realisable value of securities	(27.00)	
	81.00	
Less: ECGC cover (50%)	(40.50)	
Net unsecured Balance	40.50	
Required provision:		
Provision for unsecured portion (100%)		40.50
Provision for secured portion (100%)		27.00
Required provision		67.50

Other Advances:

(Amount in ` lakh)

Assets	Amount (`)	%of provision	Provision (`)
Standard	5,400	0.40*	21.60
Sub-standard	3,960	15	594.00
Doubtful:			
For one year	1,620	25	405.00
For two years	1,080	40	432.00
For three years	720	40	288.00
For more than three years	540	100*	540.00
Loss	1,080	100	1,080.00
Required provision			3,360.60

Note: Doubtful advances have been taken as fully secured. However, in case, the

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students assume that no security cover is available for these advances, provision will be made for 100%.
* As per the Master Circular issued by RBI.

(b) (i) The Central Electricity Authority shall consists of not more than 14 members (including its chairperson), of whom not more than 8 shall be full time members to be appointed by the Central Government. The Central Government appoints one of the full time members to be the Chairman of the Authority.

(ii) Name of the Power Station: Divya Power Generation Project Ltd.
Date of Commercial operation/work completed date: January 15, 1997
Beginning of Current year: April 1, 2012
Useful Life: 35 years
Remaining useful life: 20 years

Statement showing the Calculation of Average capital cost and depreciation:

(Amount in ` Crores)

	2012-13	2013-14	2014-15
A. Opening Capital Cost	190.00	190.00	199.04
B. Additional Capital Cost	0.00	9.04	25.20
C. Closing Capital Cost	190.00	199.04	224.24
D. Average Capital Cost [(A+C)/2]	190.00	194.52	211.64
E. Less: Cost of Freehold Land	10.27	10.27	10.27
F. Average Capital Cost for Depreciation (D-E)	179.73	184.25	201.37
G. Depreciable value (90% of F)	161.76	165.82	181.23
H. Depreciation recovered upto prev. year	46.22	52.00	57.99
I. Balance Depreciation to be recovered (G-H)	115.54	113.82	123.24
J. Balance useful life out of 35 years	20.00	19.00	18.00
K. Yearly depreciation from 2012-13 (I/J)	5.78	5.99	6.85
L. Depreciation recovered upto the year (H+K)	52.00	57.99	64.84

(c)

FORM B- RA

Name of the insurer: Mega Fire Insurance Co. Ltd.
Registration No. and date of Registration with the IRDA:
Revenue Account for the year ended 31st March. 2015

(Amount in ` lakh)

	Particulars	Schedule	Amount (`)
(1)	Premium earned	1	1,680.00
(2)	Other income		---
(3)	Interest, dividend and rent		25.00
	Total (A)		1705.00
(4)	Claims incurred	2	1037.50
(5)	Commission	3	62.00
(6)	Operating expenses related to insurance business	4	375.50
	Total (B)		1475.00
	Operating Profit (A) - (B)		230.00

Schedule-1: Premium earned (net)	(` in lakh)
Premium received	1,880.00
Less: Re-issuance premium	(125.00)
Net premium	1,755.00
Adjustment for change in reserve for unexpired risks	(75.00)

(Refer W.N) [50% of (1,755- 802.50)]	
	1,680.00

Schedule- 2: Claim incurred	(` in lakh)
Claims paid including legal expenses (1027.25 + 0.50)	1027.75
Add: Claims outstanding at the end of the year	120.25
Less: Claims outstanding at the beginning of the year	(110.50)
Total claims incurred	1037.50

Schedule- 3: Commission	(` in lakh)
Commission paid	62.00

Schedule- 4: Operating expenses	(` in lakh)
Expenses of management	375.50