INTERMEDIATE EXAMINATION
GROUP I
(SYLLABUS 2012)

SUGGESTED ANSWERS TO QUESTIONS
DECEMBER 2016

Paper-5: FINANCIAL ACCOUNTING

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

The figures in the margin on the right side indicate full marks.
Section – A questions are compulsory. Attempt all of them.
Section – B has eight questions. Attempt any five of them.
Working notes should form part of the respective answers.
Wherever necessary, suitable assumptions may be made and disclosed by way of a note.

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

Section – A
(25 Marks)

1. Answer the following questions:

(a) Choose the most appropriate one from the stated options and write it down (only indicate (A) or (B) or (C) or (D) as you think correct.): **1 × 5 = 5**

(i) Any change in the accounting policy relating to inventories which has a material effect in the current or later periods should be disclosed. This is in accordance with the accounting principle of:
- **(A) Going Concern**
- **(B) Conservatism**
- **(C) Consistency**
- **(D) Disclosure**

(ii) Depreciation is a process of
- **(A) Apportionment**
- **(B) Valuation**
- **(C) Allocation**
- **(D) None of the above**

(iii) AS-9 is related to
- **(A) Revenue Recognition**
- **(B) Cash Flow Statement**
- **(C) Accounting for Fixed Assets**
- **(D) Disclosure of Accounting policies**

(iv) An amount spent in connection with obtaining a License for starting the factory is
- **(A) Revenue Expenditure**
- **(B) Capital Expenditure**
- **(C) Pre-paid Expenditure**
- **(D) None of the above**

(v) According to AS-15 (Revised) superannuation scheme which has relevance only

to the final salary and number of years of service is
(A) Defined Benefit Scheme
(B) Defined Contribution Scheme
(C) Non-Contributory Scheme
(D) Both (A) and (B)

(b) Match the following in Column - I with the appropriate in Column - II: 1 × 5 = 5

Column I		Column II	
(i)	Non-Performing Assets	(A)	Branch Accounts
(ii)	AS-15 (Revised)	(B)	Consignment Accounting
(iii)	AS-28	(C)	Banking Company
(iv)	Stock and Debtors Method	(D)	Employee Benefits
(v)	Account Sales	(E)	Impairment of Assets
		(F)	Borrowing Cost

(c) State whether the following statements given below are TRUE or FALSE: 1 × 5 = 5

(i) In the case of consignment sales, revenue is to be recognised on sale of goods to a third party.
(ii) The amount by which the minimum rent exceeds the actual Royalty is known as Excess Workings.
(iii) Bank Reconciliation Statement is not a part of the process of Accounts.
(iv) As per AS-2 Inventory is valued at the lower of net realisable value and current replacement cost.
(v) Retiring a bill under rebate means payment of the bill before due date.

(d) Answer the following questions (Give workings): 2 × 5 = 10

(i) NATARAJ LTD. deals in manufacture of Products P, Q, R and S respectively. It provides the following information with respect to the Closing Stock of these items for the year ended March 31, 2016.

Category of stock	Historical Cost (₹)	Net Realisable value (₹)
P	80,000	59,200
Q	1,03,200	1,02,400
R	60,000	71,000
S	90,000	93,200

Calculate the value of inventories to be shown in the Balance Sheet as on March 31, 2016 as per requirements of AS-2.

(ii) BHARAT TUSHAR LTD. which depreciates its machinery at 10% p.a. on diminishing balance method, had on 1st April, 2015, ₹ 29,160, to the debit of Machinery Account. On 31st March, 2016, the company decided to change the method of depreciation to straight line method with effect from 1st April, 2012, the rate of depreciation remaining the same.
Pass the necessary Journal entry on account of change in method of Depreciation.

(iii) Healthy Life Insurance Ltd. declared a reversionary bonus of ₹ 12 per ₹ 1,000 and gave the policyholders an option to get the bonus in cash for ₹ 5 per ₹ 1,000. Total business of the company is ₹ 15 crores, 40% of the policyholders decided to get bonus in cash.
Pass the necessary journal entries in the Book of Healthy Life Insurance Ltd.

(iv) P and R are currently partners in a firm sharing Profit/Loss in the ratio of 4:3. A new

partner D is admitted and after his admission new Profit/Loss sharing ratio between P, R and D becomes 5:3:2.
What will be the sacrifice ratio of P and R after admission of D?

(v) MS SHAYANI purchased 10% Debentures in KPC LTD for ₹ 5,20,000 on 1st July, 2015. The face value of these Debentures were ₹ 4,80,000. Interest on Debentures falls due on 30th September and 31st March.
Compute the Cost of Acquisition of the Debentures.

Answer:

(a) (i) (C)
(ii) (C)
(iii) (A)
(iv) (B)
(v) (A)

(b)

Column I		Column II	
(i)	Non-Performing Assets	(C)	Banking Company
(ii)	AS-15 (Revised)	(D)	Employee Benefits
(iii)	AS-28	(E)	Impairment of Assets
(iv)	Stock and Debtors Method	(A)	Branch Accounts
(v)	Account Sales	(B)	Consignment Accounting

(c) (i) TRUE
(ii) FALSE
(iii) TRUE
(iv) FALSE
(v) TRUE

(d) (i) 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:

Items	Historical cost (₹)	Net realizable (₹)	Valuation of closing stock (₹)
P	80,000	59,200	59,200
Q	1,03,200	1,02,400	1,02,400
R	60,000	71,000	60,000
S	90,000	93,200	90,000
			3,11,600

(ii) Cost of Machinery as on 01.04.2012 = ₹ 29,160 / (.90 × .90 × .90) = ₹ 40,000
A. Total depreciation under old method = ₹ 40,000 - ₹ 29,160 = ₹ 10,840
B. Total depreciation under new method = ₹ 40,000 × 10% × 3 = ₹ 12,000
C. Short depreciation to be provided = ₹ 1,160

Journal Entry

Particulars	L.F.	Dr. (₹)	Cr. (₹)
Profit and Loss A/c Dr.		1,160	
To Machinery A/c			1,160
(Being the short depreciation provided on a/c or change in method of depreciation)			

(iii) Health Life Insurance Ltd.

Journal Entry

Particulars	L.F.	Dr. (₹)	Cr. (₹)
Profit and Loss A/c Dr. [40%×15,00,00,000×(5/1000)] To Bonus payable in cash A/c (Being the bonus payable in cash)		3,00,000	3,00,000
Profit and Loss A/c Dr. [60%×15,00,00,000×(12/1000)] To Life Insurance Fund A/c (Being transfer to Life Insurance Fund for liability)		10,80,000	10,80,000

(iv) Calculation of sacrificing ratio of P&R after D's admission

Partners	P:	R:	D
Old Ratio	4:	3:	-
New Ratio	5:	3:	2

$$P = \frac{4}{7} - \frac{5}{10} = \frac{(40-35)}{70} = \frac{5}{70}$$

$$R = \frac{3}{7} - \frac{3}{10} = \frac{(30-21)}{70} = \frac{9}{70}$$

Sacrificing ratio of P&R = 5 : 9.

(v) Computation of Cost of Acquisition of Debentures:

Particulars	₹
Cum-interest purchase price of debentures	5,20,000
Less: Interest from the last date of payment of interest to the date of purchase [₹ 4,80,000 × (3/12) × 0.10]	12,000
Cost of Debentures at the time of acquisition	5,08,000

Section – B
(75 Marks)

Answer any five questions (carrying 15 Marks each) from Question No. 2 to Question No. 9:

2. (a) The following details are extracted from the records of M/S BANDHAN & CO, a trader for the year ended March 31, 2016.

(i) Total sales amounted to ₹ 1,80,000 including the sale of old Xerox Machine for ₹ 4,800 (Book value ₹ 8,000). The total Cash sales were 20% of the total Credit sales.

(ii) Collections from debtors amounted to 70% of the aggregate of the opening debtors and Credit sales for the period. Debtors were allowed a cash discount of ₹ 20,000.

(iii) Bills Receivable drawn during the three months totalled ₹ 30,000 of which bills amounting to ₹ 10,000 were endorsed in favour of suppliers. Out of the endorsed Bills, one bill for ₹ 6,000 was dishonoured for non-payment as the party became insolvent, his estate realised nothing.

(iv) Cheques received from customers ₹ 8,000 were dishonoured, a sum of ₹ 2,000 was irrecoverable. Bad Debt written off in the earlier years was realised ₹ 11,000.

(v) Sundry Debtors as on 01.04.2015 stood of ₹ 50,000.

You are required to draw up the Debtors Ledger Adjustment Account in the General Ledger.

3+5=8

(b) VISHAN for mutual accommodation of TITHAN and himself drew upon the latter a three months bill for ₹ 24,000 on 1st July, 2015, which was duly accepted. Vishan discounted the bill at 6% p.a. on 4th July, 2015 and remitted ½ of the proceeds to Tithan.

On 1st August, 2015, Tithan drew and Vishan accepted a bill at 3 months for ₹ 9,600. On 4th August, 2015, Tithan discounted the bill at 6% p.a. and remitted half the proceeds to Vishan. At maturity Vishan met his acceptance, but Tithan failed to meet his and Vishan had to take up. Vishan drew and Tithan accepted a new bill at two months on 4th November, 2015, for the amount due to Vishan plus ₹ 200 as interest. On 1st January, 2016, Tithan became insolvent and a first and final dividend of 40 paises in the rupee was received from his estate on 31st March, 2016.

Note: Days of grace for discounting purposes may be ignored.

Required:
Pass the necessary Journal Entries in the Books of VISHAN. **4+3=7**

Answer:

(a)

In The General Ledger of M/S BANDHAN & CO.
Debtors Ledger Adjustment Account for the year ended 31st March, 2016

Dr. Cr.

Date	Particulars	₹	Date	Particulars	₹
1.4.15	To Balance b/d	50,000	2015-16	By General Ledger Adj. A/c	
	To General Ledger Adj. A/c			Cash & Bank [70% of (50,000 + 1,46,000)]	1,37,200
	Credit Sales	1,46,000		Discount allowed	20,000
	Dish. of Endorsed B/R	6,000		B/R Drawn	30,000
	Dish. of Cheques	8,000		Bad Debts (Drawee of endorsed B/R)	6,000
				Bad Debts (Drawer of dish. Cheque)	2,000
				By Balance c/d	14,800
		2,10,000			2,10,000

Working: Credit Sales = (1/1.20) × (1,80,000 – 4,800) = ₹ 1,46,000.

Note: Cash Sales, bad debts recovered and provision for doubtful debts do not appear in the total debtors account.

(b)

In the books of VISHAN
Journal

Date	Particulars		L.F.	Dr. (₹)	Cr. (₹)
July 1, 2015	Bills Receivable A/c To Tithan A/c (Being a bill drawn on Tithan for mutual accommodation for 3 months)	Dr.		24,000	 24,000
July 4	Bank A/c Discount on Bills A/c To Bills receivable A/c (Being the bill discounted with the bank @ 6% pa)	Dr. Dr.		23,640 360	 24,000
	Tithan A/c To Bank A/c To discount on Bills A/c	Dr.		12,000	 11,820 180

	(Being ½ of the proceeds sent to Tithan and ½ of the discount charged to him)				
August 1	Tithan A/c To Bills payable A/c (Being a bill accepted for mutual accommodation for 3 months)	Dr.		9,600	 9,600
August 4	Bank A/c Discount on Bills A/c To Tithan A/c (Being ½ on the proceeds received and ½ of the discount shared)	Dr. Dr.		4,728 72	 4,800
October 4	Tithan A/c To Bank A/c (Being the bill dishonoured and taken back from bank)	Dr.		24,000	 24,000
Nov'4	Bills Payable A/c To Bank A/c (Being the bill honoured at maturity)	Dr.		9,600	 9,600
Nov'4	Tithan A/c To Interest A/c (Being the interest due to Tithan)	Dr.		200	 200
Nov'4	Bills receivable A/c (see note) To Tithan A/c (Being a new bill drawn on Tithan for 2 months)	Dr.		17,000	 17,000
2016 Jan'1	Tithan A/c To Bills receivable A/c (Being the bill dishonoured due to Tithan's insolvency)	Dr.		17,000	 17,000
March 31	Bank A/c Bad debt A/c To Tithan A/c (Being final dividend received from Tithan estate @ 40 paise in a rupee)	Dr. Dr.		6,800 10,200	 17,000

Note: Value of the new bill will be ₹ 12,000 for 1st bill + ₹ 4,800 for 2nd bill + ₹ 200 for interest = ₹ 17,000.

3. (a) THITAN of Tatanagar and NITAN of Nagpur entered into a Joint Venture to trade together in the buying and reselling of cheap machinery. Profit or loss to be shared in the ratio of 2:3. Thitan undertook to make the purchases and Nitan to effect sales.
NITAN remitted ₹1,50,000 to Thitan towards the Joint Venture. Thitan Purchased machinery worth ₹1,20,000 and paid ₹57,000, for repairs of these, 2.5% as buying commission and ₹5,400 for other Sundry expenses. He then sent all the machines purchased and repaired to Nitan of Nagpur.

While taking delivery of the machinery at Nagpur, Nitan incurred ₹ 9,000 towards Railway Freight and ₹4,200 towards Octroi. He sold part of the machinery for ₹ 2,10,000 and kept the remaining for himself at an agreed value of ₹ 45,000. Other expenses of Nitan were:

(i) Godown rent ₹ 2,700
(ii) Insurance ₹ 3,360
(iii) Brokerage ₹ 4,980 and
(iv) Miscellaneous ₹ 3,840

Both the parties decided to close the venture at this stage.
You are required to prepare the
(i) Memorandum Joint Venture Account showing profit of the Business.
(ii) Joint Venture with Nitan Account in the Books of Thitan. 5 + 2 = 7

(b) The factory premises of AURISHI LTD. were engulfed in the fire on August 16, 2016, as a

result of which a major part of stock burnt to ashes.
The stock was covered by policy for ₹ 90,000, subject to Average Clause.
The records at the office of the company revealed the following information:

Particulars	₹
Stock on 1st April, 2015	1,15,200
Purchases during the year ended 31st March, 2016	4,80,000
Sales during the year ended 31st March, 2016	6,07,800
Closing stock on 31st March, 2016	95,400
Purchases from 1st April, 2016 to August 16, 2016	1,62,000
Sales from 1st April, 2016 to August 16, 2016	1,84,200

An item of stock purchased in 2014 at a cost of ₹ 30,000 was valued at ₹ 18,000 on 31st March, 2015, due to obsolescence. Half of this stock was sold in July, 2015 for ₹ 7,800; the remaining was valued at ₹ 7,200 on 31st March, 2016. One-fourth of the original stock was sold in June, 2016, for ₹ 4,200. The remaining stock was considered to be worth 60% of the original cost.
Salvaged stock was valued at ₹ 36,000.
You are required to compute the amount of claim to be lodged with Insurance Company for Loss of Stock. **3+3+2=8**

Answer:

(a) (i)

In the books of THITAN
Memorandum Joint Venture Account

Dr. **Cr.**

Particulars	₹	Particulars	₹
To Thitan		By Nitan	
Purchase of machinery	1,20,000	Sales	2,10,000
Expenses:		Machinery retained	45,000
Cost of repairs	57,000		
Buying commission (2.5% of ₹ 1,20,000)	3,000		
Sundry Expenses	5,400		
To Nitan			
Expenses:			
Railway Freight	9,000		
Octroi	4,200		
Godown rent	2,700		
Insurance	3,360		
Brokerage	4,980		
Miscellaneous	3,840		
To Net profit			
Thitan (2/5)	16,608		
Nitan (3/5)	24,912		
	2,55,000		2,55,000

(ii)

Books of THITAN
Joint Venture with Nitan Account

Dr. **Cr.**

Particulars	₹	Particulars	₹
To Bank Account		By Bank Account:	
Purchase of machinery	1,20,000	(amount received from Nitan)	1,50,000
Repairs	57,000	By Balance c/d	52,008
Commission	3,000		
Sundry Expenses	5,400		

To Profit & Loss A/c			
(2/5* Share of Profit on Joint Venture)	16,608		
	2,02,008		2,02,008

(b)

AURISHI LTD.
Trading Account for the year ended 31st March 2016

Dr. **Cr.**

Particulars	Normal	Abnormal	Total	Particulars	Normal	Abnormal	Total
	(₹)	(₹)	(₹)		(₹)	(₹)	(₹)
To Stock (Op, at cost)	97,200	30,000	1,27,200	By Sales	6,00,000	7,800	6,07,800
To Purchase	4,80,000		4,80,000	By Profit & Loss Account (loss)		7,200	7,200
To Gross profit	1,11,000		1,11,000	By Stock (at cost)	88,200	15,000	1,03,200
	6,88,200	30,000	7,18,200		6,88,200	30,000	7,18,200

Gross profit to Sales Ratio = (1,11,000/6,00,000)×100= 18.50%.

Memorandum Trading Account upto 16th August, 2016

Dr. **Cr.**

Particulars	Normal	Abnormal	Total	Particulars	Normal	Abnormal	Total
	₹	₹	₹		₹	₹	₹
To Stock (at cost)	88,200	15,000	1,03,200	By Sales	1,80,000	4,200	1,84,200
To Purchase	1,62,000		1,62,000	By Profit & Loss Account-(Loss)		6,300	6,300
To Gross profit 18.5% on sales of normal goods	33,300		33,300	By Stock (Balancing figure)	1,03,500	4,500	1,08,000
	2,83,500	15,000	2,98,500		2,83,500	15,000	2,98,500

Value of stock on 16th August, 2016	₹	₹
Normal	1,03,500	
Abnormal (adjusted price)	4,500	1,08,000
Less: Stock Salvaged		36,000
Stock destroyed by fire		72,000

Since there is an average clause in the policy, the **claim will be:**
(Amount of the policy/stock on the date of fire) × stock destroyed by fire
= ₹ 72,000 × (90,000/1,08,000) = ₹ **60,000.**

Note: As an item of stock as on 31st March, 2015 was valued below cost, it was an abnormal item. It is shown under abnormal stock column at its original cost i.e., ₹30,000. The normal items have been separated to arrive at the normal rate of gross profit. Assume: Ratio of G.P. was uniform throughout.

4. **P, Q, R and T have been carrying on business in partnership sharing profits and losses in the ratio of 4:1:2:3. The following is their Balance Sheet as on 31st March, 2016:**

LIABILITIES	₹	₹	ASSETS	₹	₹
Capital Accounts:			**Premises**		**2,80,000**
P	**7,00,000**		**Furnitures**		**30,000**
T	**3,00,000**	**10,00,000**	**Stock-in-Trade**		**2,00,000**
Trade Creditors		**3,00,000**	**Trade Debtors**	**3,50,000**	
			Less: Provision for Bad Debts	**50,000**	**3,00,000**
			Cash at Bank		**1,40,000**
			Capital Accounts:		

			Q	2,00,000	
			R	1,50,000	3,50,000
		13,00,000			13,00,000

It has been agreed to dissolve the partnership on 1st April, 2016, on basis of following points agreed upon:

(i) P is to take over Trade Debtors at 80% of Book Value (₹ 3,50,000);

(ii) T is to take over the stock in Trade at 95% of the value; and

(iii) R is to discharge Trade Creditors.

(iv) The realisation is : Premises ₹ 2,75,000 and Furnitures ₹ 25,000.

(v) The expenses of realisation come to ₹ 30,000.

(vi) Q is found insolvent and ₹ 21,900 is realised from his estate.

Note: The loss arising out of capital deficiency may be distributed following decision in Garner vs. Murray.

You are required to Prepare:

(a) Realisation Account

(b) Bank/Cash Account

(c) Capital Accounts of the Partners. **5+4+5+1=15**

Answer:

In the books of P, Q, R & T

Realisation Account

Dr. **Cr.**

Date	Particulars	₹	Date	Particulars	₹
2016	To Trade Debtors A/c	3,50,000	2016	By Provision for Bad debts A/c	50,000
April 1	To Stock in Trade A/c	2,00,000	April 1	By Trade Creditor A/c	3,00,000
	To Premises A/c	2,80,000		By P's Capital A/c (Trade Debtors taken over)	2,80,000
	To Furniture A/c	30,000		By T's Capital A/c (Stock-in-trade taken over)	1,90,000
	To R's Capital A/c (Trade credit discharged)	3,00,000		By Bank A/c (Assets realised)	3,00,000
	To Bank/Cash (Expenses)	30,000		By Partners Capital A/cs P: ₹ 28,000: Q: ₹7,000 R: ₹14,000: T: ₹ 21,000)	70,000
		11,90,000			11,90,000

Bank/Cash Account

Dr. **Cr.**

Date	Particulars	₹	Date	Particulars	₹
2016	To Balance b/d	1,40,000	2016	By Realisation A/c (expenses)	30,000
April	To Realization A/c	3,00,000	April 1	By Partners Capital A/cs	
	To Partners' Capital A/cs:			P:	2,90,430
	P:	28,000		R:	1,50,000
	Q:	21,900		T:	54,470
	R:	14,000			
	T:	21,000			
		5,24,900			5,24,900

Partners' Capital Accounts (Amount in ₹)

Dr. **Cr.**

Particulars	P	Q	R	T	Particulars	P	Q	R	T
To Balance b/d	-	2,00,000	1,50,000	-	By Balance b/d	7,00,000		-	3,00,000
To Realisation A/c	2,80,000	-	-	1,90,000	By Realisation A/c	-	-	3,00,000	-

To Realisation A/c (Loss)	28,000	7,000	14,000	21,000	By Bank/Cash A/c	28,000	-	14,000	21,000
To Capital A/c (WN-2)	1,29,570	-	-	55,530	By Bank/Cash (W-I)	-	21,900	-	-
To Bank /Cash A/c	2,90,430	-	1,50,000	54,470	By P's Capital A/c	-	1,29,570	-	-
					By T's Capital A/c	-	55,530	-	-
	7,28,000	2,07,000	3,14,000	3,21,000		7,28,000	2,07,000	3,14,000	3,21,000

Working Notes:

(1) Solvent partners should bring in cash to make good the loss on realization.

(2) Q's deficiency of ₹ 1,85,100 (₹ 2,07,000 - ₹ 21,900) should be shared by P and T in the ratio of their capital i.e. 7:3. R will not bear any loss on deficiency, because at the time of dissolution he had a debit balance in his Capital Account.

(3) The amount realised from the estate of Q is ₹ 21,900.

5. (a) M/S SHOANI a trader who maintained books under Single Entry system, approaches you with the following details:

	01.04.2015	**31.03.2016**
Assets and Liabilities:	**₹**	**₹**
Trade Creditors	**1,57,700**	**1,24,000**
Sundry Expenses Outstanding	**6,000**	**3,300**
Sundry Assets(Net)	**1,16,100**	**96,000**
Stock-in-Trade	**80,400**	**1,11,200**
Cash in hand	**29,600**	**12,000**
Cash at Bank	**40,000**	**69,200**
Trade Debtors	**1,65,300**	**1,78,700**

(1) Details relating to transactions during the year ended March 31st, 2016.

Discount Credited to Trade Debtors	**15,000**	**Cash purchases**	**10,300**
Sales return	**14,500**	**Cash expenses**	**95,700**
Bad debts	**4,200**	**Paid by cheque for machinery purchased**	**3,900**
Discount allowed by trade creditors	**7,000**	**Household expenses drawn from bank**	**31,800**
Purchases returns	**4,000**	**Cash paid into bank**	**50,000**
Additional capital paid into bank	**85,000**	**Cash drawn from bank**	**92,400**
Realisation from Trade Debtors - paid into bank	**6,25,000**	**Cheque issued to Trade Creditors**	**6,02,700**

(2) Depreciation was provided 20% of WDV on Sundry Assets for the year.

You are requested to prepare:

(i) Trading and Profit & Loss Account for the year ended March 31, 2016 and

(ii) Balance Sheet as on that date. **5+3+1+1+1+1=12**

(b) M/S ADHUNA & CO. had a provision for Bad Debts of ₹ 13,000 against their book debts on 1st April, 2015. During the year ended 31st March, 2016, ₹ 8,500 proved irrecoverable and it was desired to maintain the provision for bad debts @ 5% on Debtors which stood at ₹ 3,90,000 before writing off Bad Debts.

Prepare the provision for Bad Debt Account for the year ended March 31, 2016. **3**

Answer:

(a)

M/S SHOANI

Trading and Profit and Loss Account for the year ended 31st March, 2016

Dr. **Cr.**

Particulars	₹	₹	Particulars	₹	₹
To Opening stock in trade		80,400	By Cash Sales	46,000	
To Purchase (Note 1)	5,90,300		By Credit Sales	6,72,100	
Less: Returns	4,000	5,86,300	Less: Return	7,18,100	
To Gross profit c/d		1,48,100	By closing stock	14,500	7,03,600
					1,11,200
		8,14,800		8,14,800	
To Sundry expenses (note-2)		93,000	By Gross profit b/d		1,48,100
To Discount allowed		15,000	By Discount received		7,000
To Bad Debts		4,200			
To Depreciation		24,000			
To Net profit		18,900			
		1,55,100			1,55,100

Balance Sheet as at 31st March, 2016

Liabilities	₹	₹	Assets	₹	₹
Capital:			Sundry Assets		96,000
Opening balance	2,67,700		Stock in trade		1,11,200
New capital	85,000		Trade Debtors		1,78,700
Profit	18,900		Cash in hand		12,000
	3,71,600		Cash at Bank		69,200
Less: Drawings	31,800	3,39,800			
Trade creditors		1,24,000			
Outstanding expenses		3,300			
		4,67,100			4,67,100

Working Notes:

(1) Purchase = Credit 5,80,000 + Cash 10,300 = ₹ 5,90,300.

(2) Sundry expenses = paid in cash ₹ 95,700 plus outstanding on 31.03.2016, ₹ 3,300 - outstanding on 01.04.2015 ₹ 6,000 = ₹ 93,000.

(3)

Balance Sheet as on April 1st, 2015

Liabilities	₹	Assets	₹
Trade creditors	1,57,700	Sundry Assets	1,16,100
Outstanding expenses	6,000	Stock in trade	80,400
Capital (balancing figure)	2,67,700	Trade debtors	1,65,300
		Cash in hand and at Bank	69,600
	4,31,400		4,31,400

(4)

Trade Debtors Account

Dr. **Cr.**

Particulars	₹	Particulars	₹
To Balance b/d	1,65,300	By Bank	6,25,000
To Sales (balancing figure)	6,72,100	By Return inward	14,500
		By Discount allowed	15,000
		By Bad debts	4,200
		By Balance c/d	1,78,700
	8,37,400		8,37,400

(5)

Trade Creditor Account

Dr. **Cr.**

Particulars	₹	Particulars	₹
To Bank A/c	6,02,700	By Balance b/d	1,57,700
To Discount Received A/c	7,000	By Purchases (balancing figure)A/c	5,80,000
To Returns outward A/c	4,000		
To Balance c/d	1,24,000		
	7,37,700		7,37,700

(6)

Cash Account

Dr. **Cr.**

Particulars	₹	Particulars	₹
To Balance b/d	29,600	By Purchases A/c	10,300
To Bank (Cash withdrawn)A/c	92,400	By Sundry Expenses A/c	95,700
To Sales (Cash sales) [balancing figure]	46,000	By Bank (Cash deposited) A/c	50,000
		By Balance c/d	12000
	1,68,000		1,68,000

(b)

M/S ADHUNA & CO.
Provision for Bad Debt Account

Dr. **Cr.**

Date	Particulars	₹	Date	Particulars	₹
31.3.16	To Bad Debts A/c	8,500	1.4.15	By Balance b/d	13,000
31.3.16	To Balance c/d 5% of (3,90,000 - 8,500)	19,075	31.3.16	By Profit & Loss A/c (further provn. required)	14,575
		27,575			27,575

6. (a) M/S YAYATI LTD. having its principal place of business at BENGALURU has a branch at New Delhi. The company sends goods to its branch at cost plus 33 $^1/_3$% which is the selling price. The following information is given in respect of the branch for the year ended 31st March, 2016.

	₹
Goods sent to Branch (invoice value)	**24,00,000**
Stock at Branch (01.04.2015) at selling price	**1,20,000**
Cash Sales	**9,00,000**
Returns from Customers	**30,000**
Branch Expenses paid for cash	**2,67,500**
Branch Debtors' Balance (01.04.2015)	**1,50,000**
Discounts allowed	**5,000**
Bad Debts	**7,500**
Stock at Branch (31.03.2016) at selling price	**2,40,000**
Branch Debtor's Balance(31.03.2016)	**1,82,500**
Collections from Debtors	**13,50,000**
Branch Debtors' Cheques returned dishonoured	**25,000**

You are required to prepare:
(i) Branch Stock Account
(ii) Branch Debtors Account and
(iii) Branch Adjustment Account to reveal the profit of the Branch for the year ended March 31, 2016. **3+2+4=9**

(b) POORVI STORES LTD., sells goods on hire purchase at Cost plus 25%. The following information is provided for the year ended March 31, 2016:

2015	Particulars	₹
April 1	Stock with hire purchase customers at hire purchase price	5,00,000
April 1	Stock at shop	1,12,500
April 1	Installments overdue	30,000
2016		
March 31	Cash received from HP customers during the year	14,75,000
March 31	Purchases for the year	12,50,000
March 31	Installments overdue	55,000
March 31	Stock at shop	62,500
March 31	Stock with hire purchase customers at hire purchase price	6,25,000

You are required to prepare Hire Purchase Trading Account for the year ended March 31, 2016. **5+1=6**

Answer:

(a)

Book of Yayati Ltd. (H.O.)
Branch Stock Account

Dr. Cr.

Particulars	₹	Particulars	₹
To Balance b/d (Opening stock)	1,20,000	By Cash (Cash Sales)A/c	9,00,000
		By Branch Debtors A/c (Credit Sales)	14,00,000
To Goods sent to Branch A/c	24,00,000	By Branch Adjustment A/c	
To Branch Debtors A/c (Returns inward)	30,000	Spoilage: Loss 7,500 Loading 2,500 (Balancing figure)	10,000
		By Balance c/d (closing stock)	2,40,000
	25,50,000		25,50,000

Branch Debtors Account

Dr. Cr.

Particulars	₹	Particulars	₹
To Balance (Opening b/d)	1,50,000	By Branch Stock A/c	30,000
To Bank (Dishonour of cheque)	25,000	By Bank-Collections from Debtors	13,50,000
To Branch Stock A/c	14,00,000	By Branch Expenses:	
(balancing figure-credit sales)		Bad debts 7,500 Discount allowed 5,000	12,500
		By Balance (Closing) c/d	1,82,500
	15,75,000		**15,75,000**

Branch Adjustment Account

Dr. Cr.

Particulars	₹	Particulars	₹
To Stock Reserve A/c (on closing stock)	60,000	By Stock Reserve A/c (On opening stock)	30,000
To Branch stock A/c (spoilage-loading)	2,500	By Goods sent to branch A/c (loading)	6,00,000
To Gross Profit c/d	5,67,500		
	6,30,000		**6,30,000**

To Branch Expenses:		By Gross Profit b/d	5,67,500
Discount & Bad Debts	12,500		
Cash Expenses	2,67,500		
To Branch Stock A/c Loss: Spoilage	7,500		
To Net profit	2,80,000		
	5,67,500		**5,67,500**

(b)

POORVI STORES LTD.
Hire Purchase Trading Account for the year end March 31, 2016

Dr. **Cr.**

2016	Particulars	₹	2016	Particulars	₹
April 1	To Balance b/d (Stock with HP customers at cost price) (5,00,000)×(100/125)	4,00,000	Mar31	By Cash Received from H.P. Customers	14,75,000
April 1	To Installment overdue (HP Debtor A/c)	30,000	Mar31	By Installment overdue (H.P. Debtors A/c)	55,000
2016 Mar'31	To Cost of Goods sold on hire purchase [see note (i)]	13,00,000	Mar31	By Balance c/d [(Stock with H.P. customers at cost price (6,25,000×100/125)]	5,00,000
Mar31	To Profit & Loss a/c (profit)	3,00,000			
		20,30,000			20,30,000

Working Notes:

(1) Calculation the cost price of goods sold on hire:

Stock at Shop Account

Dr. **Cr.**

Particulars	₹	Particulars	₹
To Balance b/d	1,12,500	By Cost of Goods sold on hire purchase (Balancing figure)	13,00,000
To Purchases	12,50,000	By Balance c/d	62,500
	13,62,500		**13,62,500**

HP Debtors Account

Dr. **Cr.**

Particulars	₹	Particulars	₹
To Balance b/d	30,000	By Cash a/c	14,75,000
To HP Stock A/c (B.F.)	15,00,000	By Balance c/d	55,000
	15,30,000		**15,30,000**

7. (a) MADHAVI BUILDCOM LTD. undertook a contract to construct a bridges across river Revathi for ₹ 260 crores on 1st July, 2015. The following details are available in the records kept for the year ended 31st March, 2016.

(Amount in ₹ crores)

Work certified	**120**
Work to be certified	**42**
Prudent estimates of additional cost for completion	**108**

Required:

What is the additional provision for Foreseeable loss which must be made in the Financial Accounts for the year ended 31st March, 2016 as per provisions of AS-7?

1+4=5

(b) The following are balances and other information extracted from the books of SNEHA IN BANK LTD. as on 31st March, 2016.

	₹ in lakhs		₹ in lakhs
Interest and Discount	**4,420**	**Interest expended**	**1,360**
Other Income	**125**	**Operating Expenses**	**1,331**
Income on Investments	**10**		

Additional Information:

	₹ in lakhs
(i) Rebate on bills discounted to be provided for	**15**
(ii) Classification of Advances:	
Standard Assets	**2,500**
Sub-Standard Assets (Covered by security)	**560**
Doubtful Assets not covered by security	**255**
Doubtful Assets covered by security	
For 1 year	**25**
For 2 years	**50**
For 3 years	**100**
For 4 years	**75**
Loss Assets	**100**
(iii) Make tax provisions @ 35% of the profit.	
(iv) Profit and Loss Account (Cr.) brought forward from the previous year	**40**

Required:

(A) Calculate the amount of Provisions and contingencies

(B) Prepare Profit & Loss Account for the year ended 31st March, 2016. 4+6=10

Answer:

(a) As per AS-7 'Construction Contract' when it is probable that total contract costs will exceed total revenue, the expected loss should be immediately recognized as an expense. The amount of such a loss is determined irrespective of (a) Whether or not work has commenced on the contract, (b) the stage of completion of contract activity as per AS-7, (c) the amount of profit expected to arise on other contracts which are not treated as a single contract.

We are to compute the anticipated/foreseeable loss and Additional provision required which are as follows:

Particulars	₹ in crores
1. Contract price (given)	260
2. Cost incurred till date (Work certified+ Work to be certified)	162
3. Further costs to be incurred to complete the contract	108
4. Total contract costs (2)+(3)	270
5. Expected loss on contract (1)- (4)	(10)
6. Percentage of completion based on Costs (2)÷(4)	60%
7. Contract revenue recognized (1) × (6)	156
8. Contract costs recognized (as per 2)	162
9. Contract profit/ (Loss) (7)- (8)	(6)
10. Expected Loss to be recognized (as per 5)	(10)
11. Additional provision required (9)- (10)	4

(b)

SNEHA IN BANK LTD.

(A) Calculation of Provisions and Contingencies

(i) Provision on Non-Performance Assets*

Particulars	Amount	%of provision	₹ in lakhs provision
Standard Assets	2,500	0.4	10
Sub-standard Assets (covered by security)	560	15	84
Doubtful Assets not covered by security	255	100	255
Doubtful Assets covered by security:	25	25	6.25
For 1 year	50	40	20
For 2 years	100	40	40
For 3 years	75	100	75
For 4 years Loss Assets	100	100	100
	3,665		590.25

(ii) Calculation of provision for tax
= 35% of [Total Income - Total Expenditure (excluding tax)]
= 35% of [(4415+125)-(1360+1331+590.25)] = ₹ 440.5625 lakhs
Total provisions and contingencies = Provisions on NPAs + Provisions for tax
= 590.25+440.5625 = **1,030.8125 lakhs.**

SNEHA IN BANK LTD.

(B) Profit and Loss Account for the year ended 31st March,2016

		Schedule No.	₹ in Lakhs
I.	**Income**		
	Interest Earned	**13**	4415
	Other Income	**14**	125
	Total		4540
II.	**Expenditure**		
	Interest Expended	**15**	1360
	Operating Expenses	**16**	1331
	Provisions & Contingencies [590.25+440.5625]		1030.8125
	Total		3721.8125
III.	**Profit/Loss**		
	Net Profit/Loss for the year		818.1875
	Profit/Loss brought forward		40
			858.1875
IV.	**Appropriations**		
	Transfer to Statutory Reserve @ 25% of 818.1875		204.5469
	Balance carried over to Balance Sheet		653.6406
			858.1875

Schedules 13 — Interest Earned

Particulars	**₹ in Lakhs**
I. Interest & Discount [4420 – 15 (Rebate)]	4405
II. Income on Investments	10
Total	4415

Schedules 14 — Other Income

Particulars	**₹ in Lakhs**
Other Income	125

Schedules 15 — Interest Expended

Particulars	**₹ in Lakhs**
Interest Expended	1360

Schedules 16 — Operating Expenses

Particulars	₹ in Lakhs
Operating Expenses	1331

8. (a) The following details are extracted from the Books of MEGA POWER GENERATION LTD.
- **Date of Commercial Operation/Work Completed date : 28th January', 1998**
- **Beginning of Current Year : 1st April, 2013**
- **Useful Life : 35 years**

Particulars	(Amount in ₹ crores)
Capital Cost at beginning of the year 2013-14	33,000
Additional Capitalisation during the year:	
2013-14	00.00
2014-15	15.70
2015-16	43.76
Value of Freehold Land	17.84
Depreciation recovered upto 2011-12	72.25
Depreciation recovered in 2012-13	8.05

Note: Capital Cost and Accumulated Depreciation at the beginning of the year as per Tariff order, Financial Year 2013-14.
You are required to calculate:
(i) Average Capital Cost
(ii) Annual Depreciation for the year 2013-14, 2014-15 and 2015-16 as per Tariff Regulations-2009. **2+5=7**

(b) ELITE MARINE INSURANCE CO. LTD. commenced its business on 1st April. 2014. The Company provides you the following information for the year ended March 31, 2016.

Particulars	Amount in ₹ lakh
Outstanding claims on 01.04.2015	98
Claims Paid	350
Reserve for Unexpired Risk on 01.04.2015	780
Legal Expenses regarding claims	12
Agent's Commission	120
Expenses of Management	180
Premiums received	1,690
Re-insurance premium paid	75
Interest and Rent received	24
Surveyor Fees	30

The following additional points are also to be taken into account.
(i) Claims outstanding on 31.03.2016 were ₹ 35 lakh
(ii) Premium outstanding on 31.03.2016 were ₹ 105 lakh
(iii) Expenses of management due on 31.03.2016 were ₹ 35 lakh
(iv) Reserve for unexpired Risk to be maintained at 100% of net Premiums.

Required: Prepare the Revenue Account as per IRDA Regulations for the year ended March 31, 2016. **5 + ½ + 1 + ½ + ½ + ½ = 8**

Answer:

(a) Name of the Power Station: Mega Power Generation Ltd.
Date of Commercial operation/work completed date: January28, 1998
Beginning of Current year April 1, 2013
Useful Life: 35 years
Remaining useful life: 20 years

Statement showing the Calculation of Average Capital Cost and Depreciation

(Amount in ₹ Crores)

Particulars	2013-14	2014-15	2015-16
A. Opening Capital Cost	330.00	330.00	345.70
B. Additional Capital Cost	00.00	15.70	43.76
C. Closing Capital Cost	330.00	345.70	389.46
D. Average Capital Cost [(A+C)/2]	330.00	337.85	367.58
E. Less: Cost of freehold Land	17.84	17.84	17.84
F. Average Capital cost for Depreciation (D-E)	312.16	320.01	349.74
G. Depreciable value (90% of F)	280.94	288.01	314.77
H. Depreciation recovered upto prev. year	80.30	90.33	100.73
I. Balance depreciation to be recovered (G-H)	200.64	197.68	214.04
J. Balance useful life out of 35 years	20.00	19.00	18.00
K. Yearly depreciation from 2013-14 (I/J)	10.03	10.40	11.89
L. Depreciation recovered upto the year (H+K)	90.33	100.73	112.62

(b)

FORM B-RA

Name of the insurer: Elite Marine Insurance Co. Ltd.

Registration No. and date of Registration with the IRDA

Revenue Account for the year ended 31st March, 2016

(Amount in ₹ lakh)

	Particulars	Schedule	Amount (₹)
(1)	Premium earned	1	1,720
(2)	Change in provision for in expired risk (WN-2)		(940)
(3)	Other Income		
(4)	Interest and rent		24
	Total (A)		**804**
	Claims incurred	2	329
	Commission		120
	Operating expenses related to insurance business	3	215
	Total (B)		**664**
	Operating Profit/(Loss) from Insurance Business (A-B)		140

Schedule-I: Premium earned (net)	(₹ in lakh)
Premium received (W Note-1)	1795
Less: Re-issuance premium	75
Net premium	1720

Schedule-2: Claim incurred	(₹ in lakh)
Claims paid including legal expenses & surveyor fees (350+30+2)	392
Add: Claims outstanding at the end of the year (31.03.2016)	35
Less: Claims outstanding at the beginning of the year (01.04.2015)	(98)
Total claims incurred	329

Schedule-3: Operating expenses	(₹ in lakh)
Expenses of management paid during the year	180
Add: Outstanding on 31.03.2016	35
Total	215

Working Notes:

(1)	Premium Earned	(₹ in lakh)
	Premium received during the year:	1,690
	Add: Outstanding on 31.03.2016	105
		1,795

(2)	Change in Reserve for un-expired risk:	(₹ in lakh)
	Opening balance of Reserve for un-expired Risk	780
	Closing balance of Reserve for Un-expired Risk	1,720
	(100%of₹ 1720)	940

9. Write short notes on any three out of the following: 5×3=15

(a) Project Accounting

(b) Difference between Receipts & Payments Account and Income & Expenditure Account

(c) Reserve for Un-expired Risk

(d) Minimum Rent/Dead Rent

Answer:

(a) Project Accounting:

Project accounting is the practice of creating financial reports specifically designed to track the financial progress of projects, which can then be used by managers to aid project management.

Utilizing Project Accounting provides Project Managers with the ability to accurately assess and monitor project budgets and ensure that the project is proceeding on budget. Project managers can quickly address any cost overruns and revise budgets if necessary. Project accounting allows companies to accurately assess the ROI of individual projects and enables true performance measurement. Project managers are able to calculate funding advances and actual versus budgeted cost variances using project accounting. As revenue, costs, activities and labours are accurately tracked and measured, project accounting provides future benefits to the organization. Future quotes and estimates can be fine-tuned based on past project performance. Project accounting can also have an impact on the investment decisions that companies make. As companies seek to invest in new projects with low upfront costs, less risk, and longer-term benefits, the costs and benefit information from a project accounting system provides crucial feedback that improves the quality of such important decisions.

(b) Difference between Receipts and Payments Account and Income & Expenditure Account:

	Receipts and Payments Account		Income and Expenditure Account
1.	It is merely a summary of the cash transactions - which begins with the opening balances of cash and bank and ends with the closing balances of cash and bank.	1.	It is a comparable account of a profit and loss account which shows the incomes, expenses and surplus/deficit for the period.
2.	It is almost like a Real Account	2.	It is almost like a Nominal Account.
3.	It records all monies received or paid during a year, irrespective of revenue or capital nature and also relating to the past, current or following year.	3.	It records only expenses and revenues for the current year. Items of capital nature or relating to the past or future period are excluded.
4.	Here, receipts are shown on left-hand side and payments on the right-hand side.	4.	Items appearing on the Receipts and Payments Account cross over sides as they enter into Income and Expenditure Account, that is, incomes on the right-hand side and expenses on the left-hand side.
5.	The balance of this account represents closing balances of cash and bank.	5.	The balance represents either surplus or deficit for the period.

6.	This is followed by an Income and Expenditure Account.	6.	This is followed by a Balance Sheet.

(c) Reserve for Un-expired-Risk:

This is applicable in General Insurance business only. This is in the nature of provision for claims that may arise in respect of policies which are subsisting on the date of balance sheet. Since premium has already been received in respect of such policies, provision must be made for the claims that may arise out of such policies. Insurance business is peculiar in that the premium is received in advance but the risk can arise on any day. In general insurance the policy is issued for a year which means the risk is covered for a year. Chances of the risk covered occurring do not come down proportionately with the passage of time. For example, if on the balance sheet date the unexpired period of a particular policy is one month (eleven months having expired) we cannot say that the risk on the policy is reduced to 1/12th of the total risk. Even on the last day of the policy company' risk is as high as it was on the day the policy was issued. Therefore, insurance companies must provide for the risks associated with all such policies for which the premia has been received and the policies are still in force. Thus a large portion of the premia collected must be kept in reserve for unexpired risk. Keeping in view the nature of the business, the Executive Committee of the General Insurance Council (which has been set up under the (5) Insurance Act to supervise general insurance companies) has laid down that in the case of marine insurance the provision for unexpired risk should be 100% of the net premium and in the case of other businesses (like accident, fire, theft, etc.) the provision should be 50% of the net premium.

(d) Minimum Rent/Dead Rent:

A contract is entered into between the landlord and the lessee for payment of royalty, usually calculated upon the quantum of production or sale at a certain stipulated rate. So, if there is little or no production or sale, the landlord would receive little or no royalty at all, thus affects the monetary interest of the landlord as well as the lessee. It is normally not acceptable to the owner, since sale or production mostly depends on the capacity of the person to whom the rights have been given. To avoid such a situation, the landlord and the lessee agreed upon a minimum periodical amount that the landlord will receive from the lessee, even if the actual royalty as calculated on the basis of actual production or sale is less than such minimum amount.

This assured and mutually agreed periodical minimum amount is known as **"Minimum Rent".** The minimum rent is also called dead rent, certain rent, fixed rent, etc.

Example: Suppose royalty per ton of production is ₹ 10 and the minimum (annual) rent is ₹ 4,00,000. Now, the actual production is 35,000 tons, then actual royalty would become ₹ 3,50,000. In this case the minimum rent of ₹ 4,00,000 will have to be paid by the lessee. On the other hand, if the actual production is 46,000 tons, then the actual royalty would become ₹ 4,60,000. In this case ₹ 4,60,000 will have to be paid by the lessee. Thus, as there is a stipulation for minimum rent, then either the minimum rent or the actual royalty whichever is more shall have to be paid by the lessee.