INTERMEDIATE EXAMINATION
GROUP I
(SYLLABUS 2012)

SUGGESTED ANSWERS TO QUESTIONS
DECEMBER 2017

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) Which of the following is not part of financial statements?
(A) Trading and Profit & Loss Account
(B) Balance Sheet
(C) Trial balance
(D) Cash Flow Statement

(ii) Which subsidiary book serves both as Journal as well as ledger?
(A) Cash Book
(B) Purchase Book
(C) Sales Book
(D) Bills Receivable Book

(iii) Purchase return immediately paid in cash would be entered into
(A) Purchase return Book
(B) Cash Book
(C) Journal Proper
(D) Purchase Book

(iv) Which of the following is not the part of inventory cost as per AS – 2?
(A) Storage Costs that are necessary in the production process prior to a further production stage.
(B) Administrative Overheads that contribute to bringing the inventories to their present location and condition.
(C) Normal loss.
(D) Storage costs that are not necessary in the production process prior to a further production stage.

(v) State the ratio in which the partners share all the accumulated profits, reserves, losses and fictitious assets in case of change in profit sharing ratio.

(A) Sacrificing ratio
(B) Old profit sharing ratio
(C) New profit sharing ratio
(D) Equally

(b) Match the following: **1× 5= 5**

	Column A		Column B
1.	Depreciation of Fixed Asset	(A)	AS-1
2.	Deferred Benefit/Contribution Scheme	(B)	AS-6
3.	Fundamental Accounting Assumptions	(C)	AS-2
4.	Accounting for Construction Contracts	(D)	AS-10
5.	Valuation of Inventory	(E)	AS-7
		(F)	AS-15

(c) State whether the following statements are true or false: **1×5=5**

(i) Assets are classified into fixed and current assets as per cost principle.
(ii) Bank Account is a real account.
(iii) Discount given at the time of making invoice should be recorded in the books of original entry.
(iv) Del credere commission is allowed to consignee for making credit sales.
(v) Discount column made in cash book is not a memorandum account.

(d) Answer the following: **2×5=10**

(i) The stock was physically verified on 24th March and was valued at ₹2,00,000. Goods are normally sold by the trader at a profit of 25% on cost. After stock taking the following transactions have taken place till 31st March. Sales of ₹ 2,21,600 which includes:

(A) Sales of ₹ 10,800 at 20% more than the normal selling price.

(B) Sales of ₹10,800 at 10% less than the normal selling price.

Required: Determine the value of stock to be taken to the Balance Sheet of PCT Ltd. as at 31st March.

(ii) Bharat Ltd. which depreciates its machinery at 10% p.a. straight line basis, had on 1st April, 2016 ₹28,000 to the debit of Machinery Account. On 31st March, 2017, the company decided to change the method of depreciation to diminishing balance method with effect from 1st April, 2013 being the date of purchase of machine and the rate of depreciation remaining the same. There was no purchase/sale of machine after 1st April, 2013. Pass the necessary journal entry on account of change in method of depreciation.

(iii) Prizes awarded during the year 2016-2017 ₹2,00,000. Prize Fund as at 31.03.2016 ₹12,00,000. Donations for prizes received during the year 2016-2017 ₹2,80,000, 10% Prize Fund Investments as at 31.03.2016 ₹12,00,000. Interest received on Prize Fund Investments ₹60,000. Capital Fund as at 31.03.2016 ₹90,00,000. How will you disclose these items in Balance Sheet as at 31.03.2017?

(iv) A and B are partners sharing profits in the ratio of 3:2. They admit C, a new partner who acquires 1/5th of his share from A and 4/25th share from B. Calculate the new profit sharing ratio and sacrificing ratio.

(v) X sent out goods costing ₹80,000 to Y so as to show 20% profit on invoice price. 40% of the goods were lost in transit. 60% of the goods received by consignee was sold at 25% above invoice price. Rate of commission is 10% on sales at invoice price plus 50% of the surplus over invoice price. Calculate the commission due to Y.

Answer:

1. (a)

(i) (C) Trial balance

(ii) (A) Cash Book

(iii) (B) Cash Book

(iv) (D) Storage costs that are not necessary in the production process prior to a further production stage.

(v) (B) Old profit sharing ratio

1. (b)

Column A		Column B	
1.	Depreciation of Fixed Asset	(D)	AS-10
2.	Deferred Benefit/Contribution Scheme	(F)	AS-15
3.	Fundamental Accounting Assumptions	(A)	AS-1
4.	Accounting for Construction Contracts	(E)	AS-7
5.	Valuation of Inventory	(C)	AS-2

1. (c)

(i) False

(ii) False

(iii) False

(iv) False

(v) False

1. (d)

(i) **Statement Showing the Valuation of Stock As At 31st March**

Particulars	₹
A. Value of Stock as at 24th March	2,00,000
B. Less: Cost of Goods sold	
Normal Sales [80% of (2,21,600 - 10,800 - 10,800]	(1,60,000)
Abnormal Sales [80% of (10,800 × 100/120)]	(7,200)
[80% of (10,800 × 100/90)]	(9,600)
C. Value of Stock as at 31st March	23,200

(ii) Cost as on 01.04.2016 = ₹ 28,000/0.70 = ₹ 40,000

A. Total Depreciation under Old Method = ₹40,000 - ₹ 28,000 = ₹ 12,000

B. Total Depreciation under New Method = ₹40,000 -[40,000 × 90%, × 90% × 90%] = ₹10,840

C. Excess Depreciation to be written back ₹ 1,160

Journal Entry to Adjust Excess Depreciation

	Dr.	Cr.
Machinery A/c Dr. To Profit and Loss A/c (Being the Excess Depreciation written back on a/c of change in method of Depreciation)	₹1,160	 ₹1,160

(iii) An Extract of Balance Sheet as at 31st March, 2017

Liabilities	₹	Assets	₹
Capital Fund:	90,00,000	10% Prize Fund Investments	12,00,000
Prize Fund:		Accrued Interest on 10% Prize Fund Investments	60,000
Opening Balance 12,00,000			
Add: Donations 2,80,000		Prize Fund Bank Balance	1,40,000
Add: Interest 1,20,000 Interest received ₹60,000 + Accrued ₹60,000) i.e. ₹1,20,000			
Less. Prizes awarded (2,00,000)	14,00,000		14,00,000

(iv) Step 1: Calculation of Share of Incoming Partner

Since C acquires 1/5th of his share from A, it means he acquires 4/5th (i.e. 1-1/5th) of his share from B.

If 4/5th shares = 4/25

1 share = 4/25 × 5/4=1/5

Step 2: Calculation of New Shares

Share acquired by C : from A = 1/5 × 1/5 = 1/25, from B = 4/25

A's New Share = 3/5 - 1/25 = 14/25, B's New Share = 2/5 - 4/25 = 6/25

Step 3: New Profit Snaring Ratio of A, B and C = 14/25 : 6/25 : 5/25 =14:6:5

Step 4: Sacrificing Ratio of A and B = 1/25: 4/25 =1:4

(v) Invoice Price of Goods Sold = 60% (₹1,00,000 – 40% of ₹1,00,000) = ₹36,000

Surplus over invoice price = ₹ 36,000 × 25% = ₹ 9000

Commission = (36,000 × 10/100) + (9,000 × 50/100) = ₹ 8,100

Section – B
(75 marks)

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

2. (a) Bhola purchases goods on credit from various suppliers. However, there is a difference of opinion which has arisen with one of its suppliers. While the Supplier claims that the amount receivable from Bhola is ₹1,51,800, on the other hand, Bhola claims that the amount payable is ₹1,41,000. On evaluation of records the following were identified:

(i) A purchase of ₹42,600 was recorded by the supplier as ₹46,800.

(ii) Goods returned by Bhola amounting to ₹3,000, but the stock is in transit and has

not reached the supplier/vendor.

(iii) Cheques issued to vendor for ₹ 16,800, in transit.

(iv) Bills raised for goods purchased from the supplier, amounting ₹13,200, but goods are yet to reach the warehouse/godown of Bhola.

Prepare a suitable reconciliation statement. **7**

(b) From the following information prepare the necessary adjustment accounts as they would appear in the General Ledger of Vatika Ltd.

Particulars	₹
Closing debtors balance (as per General Ledger Adjustment A/c)	60,000 (Cr.)
Credit sales	40,000
Credit purchases	15,000
Paid to creditors	7,500
Discount allowed	1,500
Bills payable accepted	5,000
Discount received	500
Received from debtors	20,000
Bad debts	5,000
Closing creditors balance (as per General Ledger Adjustment A/c)	30,000 (Dr.)
Bill accepted by customers	3,000

Discount allowed to debtors ₹500 was recorded as discount received from creditors. 8

Answer:

2. (a) Amount Due to Supplier – Payable Reconciliation Statement

Particulars	Amount ₹
Amount due to supplier (as per books of the Supplier)	1,5 1,800
Less: Overstatement of sales figure in the books of supplier (i.e. goods sold by supplier to Bhola for ₹ 42,600 but recorded as ₹ 46,800)	4,200
Less: Goods returned to supplier, now in transit	3,000
Less: Cheques issued to vendor, now in transit	16,800
Add: Bills raised against goods purchased, not stock-in-transit, i.e. not yet reached the warehouse of Bhola	13,200
Amount due to supplier (as per books of Bhola)	1,41,000

(b) Dr. Debtors' Ledger Adjustment Account in General Ledger Cr.

Particulars	₹	Particulars	₹
To Balance b/d (balancing figure)	49,500	By Gn. Ledger AdjustmentA/c:	
To General Ledger Adjustment A/c:		Cash from debtors	20,000
Credit sales	40,000	Bills receivable	3,000
		Bad debts	5,000
		Discount allowed (1,500 +500)	2,000
		By Balance c/d (60,000 - 500)	59,500
	89,500		89,500

Dr. Creditors' Ledger Adjustment Account in General Ledger Cr.

Particulars	₹	Particulars	₹
To General ledger Adjustment		By Balance b/d (balancing	

account: Cash paid to creditors Bills payable To Balance c/d (30,000 + 500)	 7,500 5,000 30,500	figure) By General ledger adjustment Account: Credit purchases	28,000 - 15,000
	43,000		43,000

3. Mr. X runs a retail business. Suddenly he finds on 31.03.2017 that his Cash and Bank balances have reduced considerably. He provided you the following information:

(i) Balances:

Particulars	Opening	Closing
Sundry Debtors	**35,400**	**58,800**
Sundry Creditors	**84,400**	**22,400**
Cash at Bank	**1,08,400**	**2,500**
Cash in Hand	**10,400**	**500**
Rent (Outstanding for one month)	**2,400**	**3,000**
Stock	**11,400**	**20,000**
Electricity and Telephone bills-outstanding		**6,400**

(ii) Bank Pass – Book reveals following:

Total Deposits	10,34,000
Withdrawals:	
Creditors	**8,90,000**
Professional charges	**34,000**
Furniture and Fixtures (acquired on1st Oct.)	**54,000**
Proprietor's drawings	**1,61,900**

(iii) Rent has been increased from January, 2017.

(iv) Mr. X deposited all cash sales and collections from debtors after meeting wages, shop expenses, rent, electricity and telephone charges.

(v) Mr. X made all purchases on credit.

(vi) His credit sales during the year amounts to ₹9,00,000.

(vii) He incurred ₹6,500 per month towards wages.

(viii) He incurred following expenses:

(A) Electricity and telephone charges ₹24,000 (paid)

(B) Shop expenses ₹18,000 (paid)

(ix) Charge depreciation on furniture and fixtures @ 10% p.a.

***Required:* Finalize the accounts of Mr. X and compute his profit for the year ended 31.03.2017.**
Prepare his statement of affairs and reconcile the profit and capital balance. 15

Answer:

3. Trading and Profit and Loss Account
for the year ended 31st March, 2017

Dr. **Cr.**

Particulars	₹	Particulars	₹
To Opening Stock To Purchases To Gross Profit c/d	11,400 8,28,000 3,78,100	By Sales: Cash 2,97,500 Credit 9,00,000 By Closing Stock	 11,97,500 20,000
	12,17,500		12,17,500

To Wages	78,000	By Gross Profit	b/d	3,78,100
To Rent Paid 30,000				
Less: o/s in the beg. (2,400)				
27,600				
Add: o/s at the end 3,000	30,600			
To Electricity & Telephone				
Paid 24,000				
o/s at the end 6,400	30,400			
To Professional Charges	34,000			
To Shop Expenses	18,000			
To Depreciation (54,000 × 10% × 1/2)	2,700			
To Net Profit	1,84,400			
	3,78,100			3,78,100

Statement of Affairs of Mr. X as on 31.03.2016 & 31.03.2017

Liabilities	31.03.16 ₹	31.03.17 ₹	Assets	31.03.16 ₹	31.03.17 ₹
Capital A/c (b.f.)	78,800	1,01,300	Furniture		51,300
Sundry Creditors	84,400	22,400	Stock	11,400	20,000
Outstanding Rent	2,400	3,000	Sundry Debtors	35,400	58,800
Outstanding Electricity &			Bank	1,08,400	2,500
Telephone		6,400	Cash	10,400	500
	1,65,600	1,33,100		1,65,600	1,33,100

Reconciliation of Profit

Particulars	₹
Closing Capital	1,01,300
Add: Drawings	1,61,900
Lass: Opening Capital	(78,800)
Profit for the year	1,84,400

Working Note

Dr. **(i) Total Debetors Account** Cr.

Particulars	₹	Particulars	₹
To Balance b/d	35,400	By Cash A/c (b.f.)	8,76,600
To Credit Sales	9,00,000	By Balance c/d	58,800
	9,35,400		9,35,400

Dr. **(ii) Total Creditors Account** Cr.

Particulars	₹	Particulars	₹
To Bank A/c	8,90,000	By Balance b/d	84,400
To Balance c/d	22,400	By credit Purchases	8,28,000
	9,12,400		9,12,400

Dr. **(iii) Cash Account** Cr.

Particulars	Cash	Bank	Particulars	Cash	Bank
To Balance b/d	10,400	1,08,400	By Bank (Contra)	10,34,000	
To Sundry Debtors	8,76,600	-	By Wages	78,000	
To Cash Sales (b.f.)	2,97,500	-	By Rent	30,000	
To Cash A/c(Contra)	-	10,34,000	By Electricity & Tel.	24,000	
			By Shop Expenses	18,000	
			By Professional	-	
			Charges	-	34,000

			By Sundry Creditors By Furniture By Drawings A/c By Balance c/d	- - - 500	8,90,000 54,000 ,161,900 2,500
	11,84,500	11,42,400		11,84,500	11,42,400

Computation of Rent Paid:

Total Rent (April 2016 – March 2017) — (₹2,400 × 9) + (₹3,000 × 3)	=	₹30,600
Less: outstanding at the end		₹3,000
Add: outstanding in the beg.		₹2,400
Rent paid		₹30,000

4. Prepare Income & Expenditure A/c for the year ended 31.12.2013 and the balance sheet as 31.12.2013 in the books of an Education society. 15

Particulars	Debit (₹)	Credit (₹)
Library Books	2,30,000	
Books added during the year	52,200	
Furniture	1,59,500	
Addition to Furniture	35,500	
Buildings	37,89,000	
Investment	21,25,000	
Creditors		1,77,900
Debtors	59,700	
Investment Reserve Fund		1,85,000
Entrance Fees		2,02,600
Examination Fees		32,500
Certificate Fees		7,800
Subscriptions Received		2,75,800
Hire Charges		95,500
Interest		85,000
Other Receipts		4,400
Salary	1,55,900	
Printing & Stationery	8,500	
Postage & Telephone	2,500	
Insurance	10,400	
Examination Expenses	24,000	
Periodicals	15,600	
Prizes Fund		2,15,000
Prizes Investments	2,10,400	
Prizes Investment Income		10,200
Prizes Given	9,500	
Prizes Bank Balance	2,450	
Donations (capital)		1,99,000
General Expenses	5,250	
Capital Fund		54,71,720
Bank Balance	65,500	
Cash in Hand	1,520	
Total	69,62,420	69,62,420

Additional Information:

Subscription receivable ₹22,500, Subscription received for 2014 ₹7,850, Interest accrued investments ₹6,250, Salary outstanding for 2013 ₹12,500, Prepaid Insurance ₹4,500.

Depreciate Books @ 15%, Building @ 1% and Furniture @10%.

Answer:

4.

Income & Expenditure Account for the year ended 31.12.2013

Dr. **Cr.**

Expenditure	Amount ₹	Amount ₹	Income	Amount ₹	Amount ₹
To Salary	1,55,900		By Examination fees		32,500
Add: Outstanding	12,500	168,400	By Certificate fees		7,800
To Printing & Stationery		8,500	By Subscriptions	2,75,800	
To Postage & Telephone		2,500	Add: Receivable	22,500	
To Insurance	10,400		Less: Pre-received	(7,850)	2,90,450
Less: Prepaid	(4,500)	5,900	By Hire charges		95,500
To Examination Expenses		24,000	By Interest		85,000
To Periodicals		15,600	By Other Receipts		4,400
To General Expenses		5,250	By Accrued interest		6,250
To Depreciation on Books		38,415			
To Depreciation on Building		37,890			
To Depreciation on Furniture		17,725			
To Surplus		1,97,720			
		5,21,900			5,21,900

Balance Sheet as at 31.12.2013

Liabilities	Amount ₹	Amount ₹	Assets	Amount ₹	Amount ₹
Capital Fund	54,71,720		Buildings	37,89,000	
Add: Entrance fees	2,02,600		Less: Depreciation @ 1%	(37,890)	37,51,110
Add: Donations	1,99,000		Library Books	2,30,000	
Add: Surplus	1,97,720	60,71,040	Add: Purchased in 2013	52,200	
			Less: Depreciation @15%	(38,415)	2,43,785
Investment Reserve Fund		1,85,000	Furniture & fixture	1,59,500	
Prize Fund	2,15,000		Add: Purchased in 2012	35,500	
Add: Fund Income	10,200		Less: Depreciation @10%	(17,725)	1,77,275
Less: Fund Expenses	(9,500)	2,15,700	Investment		21,25,000
Creditors		1,77,900	Prize Investments		2,10,400
Subscription received in advance		7,850	Debtors		59,700
Salary Outstanding		12,500	Prize Bank balance		2,450
			Bank balance		65,500
			Cash in hand		1520
			Subscription receivable		22,500
			Interest Accrued		6,250
			Prepaid Insurance		4,500
		66,69,990			66,69,990

5. (a) P,Q and R are partners in a firm sharing profits and losses in the ratio of 5 : 3 : 2. On 31st December, 2014 the firm was dissolved. On dissolution, the following particulars are available:

(i) Assets realised ₹1,70,000 after a loss of ₹20,000.

(ii) Liabilities were paid ₹27,000 including an unrecorded liability of ₹1,000.

(iii) Realisation expenses were ₹700, out of which ₹400 were paid by the firm and balance by partner P.

(iv) On the date of dissolution, partners' capital was in the ratio of 2 : 2 : 1.

Prepare Realisation account, Partners' Capital accounts and Bank account. **8**

(b) The amount payable to Z on his retirement amounted to ₹ 1,96,000. He took over stock worth ₹24,000 and 25% of the investments after which an amount of ₹90,000 was due and transferred to his Loan A/c. Calculate the total value of investments.
2

(c) Sunil and Puri are partners in a firm sharing profits and losses in the ratio of 3 : 2 respectively. The fixed capital of Sunil is ₹1,20,000 and Puri is ₹75,000. On 1st April, 2015 they admitted Kaushal as a new partner for 1/5th share in future profits. Kaushal brought ₹75,000 as his capital. Calculate the value of goodwill of the firm and record Journal entries on Kaushal's admission. **5**

Answer:

5. (a) Capital = Asset – Liabilities = 1,90,000 – 26,000 = ₹1,64,000
P's Capital = 1,64,000 × 2/5 = ₹65,600
Q's Capital = 1,64,000 × 2/5 = ₹65,600
R's Capital = 1,64,000 × 1/5 = ₹32,800

Dr. **Realization Account** **Cr.**

Particulars	₹	Particulars		₹
To Sundry Assets A/c	1,90,000	By Liabilities		26,000
To Bank A/c (Liability)	27,000	By Bank (Sundry Assets)		1,70,000
To Bank A/c (Expenses)	400	By Realisation Loss:		
To P's Capital A/c	300	P's Capital A/c	10,850	
		Q's Capital A/c	6,510	
		R's Capital A/c	4,340	21,700
	2,17,700			2,17,700

Dr. **Partners' Capital Account** **Cr.**

Particulars	P ₹	Q ₹	R ₹	Particulars	P ₹	Q ₹	R ₹
To Realisation A/c	10,850	6,510	4,340	By Balance b/d	65,600	65,600	32,800
To Bank A/c	55,050	59,090	28,460	By Realisation A/c	300	-	-
	65,900	65,600	32,800		65,900	65,600	32,800

Dr. **Bank Account** **Cr.**

Particulars	₹	Particulars	₹
To Realization A/c (Sundry Assets)	1,70,000	By Realisation A/c (Liabilities paid)	27,000
		By Realisation A/c (Exp)	400
		By P's Capital A/c	55,050
		By Q's Capital A/c	59,090
		By R's Capital A/c	28,460
	1,70,000		1,70,000

(b)

	₹	₹
Total amount due to Z on his retirement =		1,96,000
Less: Stock taken over worth	24,000	
Amount transferred to Loan A/c	90,000	1,14,000
Investment taken over		82,000
Total value of investment of investments = $82,000 \times \frac{100}{25}$		= 3,28,000

(c) **In the Books of Sunil, Puri and Kaushal**
Journal

Date	Particulars	L.F.	Dr. (₹).	Cr. (₹)
	Bank A/c Dr.		75,000	
	To Kaushal's Capital A/c			75,000
	(Being capital bought in by Kaushal)			
	Kaushal's Current A/c Dr.		21,000	
	To Sunil's Current A/c			12,600
	To Puri's Current A/c			8,400
	(Being Kaushal's share of goodwill credited to Sunil and Pun in their sacrificing ratio, *i.e.,* 3:2)			

Note: Calculation of goodwill:

(i) Total Capital of the new firm on the basis of Kaushal's Capital = 75,000 × 5/1 = ₹3,75,000

(ii) Existing Capital of all partners including new partner's Capital = ₹1,20,000 + ₹ 75,000 + ₹75,000 = ₹2,70,000.

(iii) Firm's goodwill (Hidden) (i - ii) ₹ 3,75.000 – ₹ 2,70,000 = ₹ 1,05,000
Kaushal's share of goodwill = ₹1,05,000 × 1/5 = ₹ 21,000.

6. (a) The following entries without narration have been recorded. Please write the entries with complete narration. Marks will be awarded only for complete narration. **6**

				Dr. ₹	Cr. ₹
1st year	**1.**	**Royalty A/c**	**Dr.**	**8,000**	
Dec. 31		**Short working A/c**	**Dr.**	**2,000**	
		To Landlord A/c			**10,000**
	2.	**Landlord A/c**	**Dr.**	**10,000**	
		To Bank A/c			**10,000**
	3.	**P and L A/c**	**Dr.**	**10,000**	
		To Royalty A/c			**10,000**
2nd year	**1.**	**Royalty A/c**	**Dr.**	**11,000**	
Dec. 31		**To Landlord A/c**			**11,000**
	2.	**Landlord A/c**	**Dr.**	**11,000**	
		To Bank A/c			**10,000**
		To Short working A/c			**1,000**
	3.	**P and L A/c**	**Dr.**	**12,000**	
		To Royalty A/c			**11,000**
		To Short working A/c			**1,000**

(b) Heaven Life Insurance Co. furnishes you the following information:

Particulars	Amount (₹)
Life Insurance fund on 31.03.2017	**52,00,000**
Net liability on 31.03.2017 as per actuarial valuation	**40,00,000**
Interim bonus paid to policyholders during intervaluation period	**3,00,000**

You are required to prepare:

(i) Valuation balance Sheet;

(ii) Statement of Net Profit for the valuation period; and

(iii) Amount due to the policy holders. **5**

(c) Salt Lake Ltd. Kolkata invoice goods to its branch at Delhi at a profit at 25% on cost. Prepare Branch Stock Account under (i) Single Column and (ii) Double Column from the following particulars: **4**

Particulars	Amount ₹	Particulars	Amount ₹
Opening Stock (Invoice Price)	**20,000**	**Normal Loss (Invoice Price)**	**1,000**
Goods sent to Branch (Invoice Price)	**1,20,000**	**Pilferage of Stock (Invoice Price)**	**2,000**
Goods return to H.O. (Invoice Price)	**5,000**	**Cash Sales**	**97,000**
Goods lost in transit (Invoice Price)	**5,000**	**Closing Stock (Invoice Price)**	**30,000**

Answer:

6. (a)

				Dr. ₹	Cr. ₹
1st year Dec. 31	1.	Royalty A/c Short working A/c To Landlord's A/c (Royalty amounting of ₹8,000 credited to landlord's account subject to minimum rent of ₹10,000)	Dr. Dr.	8,000 2,000	 10,000
	2.	Landlord's A/c To Bank A/c (Payment of the sum due to landlord)	Dr.	10,000	 10,000
	3.	P and L A/c To Royalty A/c (Transfer of royalty to the profit and loss A/c)	Dr.	10,000	 10,000
2nd year Dec. 31	1.	Royalty A/c To Landlord A/c (Royalty amounting to ₹11,000 credited to landlord's A/c)	Dr.	11,000	 11,000
	2.	Landlord's A/c To Bank A/c To Short working A/c (Payment of the amount due to landlord after recovery of ₹1,000 against short working)	Dr.	11,000	 10,000 1,000
	3.	Profit and Loss A/c To Royalty A/c To Short working A/c (Royalty amounting to ₹11,000 and irrecoverable short working of ₹1,000 transferred to profit and loss A/c).	Dr.	12,000	 11,000 1,000

Note: In entry 1 of first year, royalty has been debited with ₹ 8,000 whereas in entry 3, transfer of royalty to Profit and Loss Account has been recorded at ₹ 10,000. This implies that another royalty of ₹2,000 (paid/payable) relates to the year 1 which has not been given in the question.

6. (b) (i) **Heaven Life Insurance Co.**

Valuation balance Sheet as at 31st march, 2017

Dr. **Cr.**

Particulars	Amount ₹	Particulars	Amount ₹
To Net Liability as per actuarial valuation To Surplus	40,00,000 12,00,000	By Life Assurance Fund	52,00000
	52,00,000		52,00,000

(ii) Statement showing Net Profit for the valuation period

Particulars	**Amount (₹)**
Surplus as per Balance Sheet (i.e.. Valuation Balance Sheet)	12,00,000
Add: Interim bonus paid	3,00,000
	15,00,000

(iii) Amount due to Policyholders

Particulars	**Amount (₹)**
95% of Net Profit due to policyholders (95% of ₹ 15,00,000)	14,25,000
Less: Interim bonus already paid	3,00,000
Amount due to policyholders	11.25,000

6. (c) (i) Under Single column

In the Books of H. O.

Delhi Branch Stock Account

Dr. **Cr.**

Particulars	**Amount ₹**	**Particulars**	**Amount ₹**
To Balance b/d	20,000	By Branch Cash A/c	
To Goods sent to branch	1,20,000	Case Sales	97,000
		By Goods sent to branch (Return)	5,000
		By Loss-in-transit	5,000
		By Normal Loss	1,000
		By Pilferage of Stock	2,000
		By Balance c/d	30,000
	1,40,000		1,40,000

(ii) Under Double Column

In the Books of H. O.

Delhi Branch Stock Account

Dr. **Cr.**

Particulars	**Invoice Price ₹**	**Cost Price ₹**	**Particulars**	**Invoice Price ₹**	**Cost Price ₹**
To Balance b/d	20,000	16,000	By Branch Cash A/c		
To Goods sent to branch	1,20,000	96,000	Cash Sales	97,000	97,000
			By Goods sent to branch (Return)	5,000	4,000
To Gross Profit	—	19,400			
			By Loss - in- transit	5,000	4,000

			By Normal Loss	1,000	800
			By Pilferage of Stock	2,000	1 600
			By Balance c/d	30,000	24,000
	1,40,000	1,31,400		1,40,000	1,31,400

Students may follow this method also

In a columnar Branch Stock A/c, Normal Loss to be recorded only in Invoice Price column

Effect in the Answer —

In case of Double Column Branch Stock Account — The amount of **Normal Loss** should come under Invoice Price Column only, hence the **total** of **Cost Price Column** Will be ₹1,31,400 and the **balance c/d** will be ₹24,800.

7. (a) The following particulars are extracted from the records of M/s. Engco Bank Limited for the year ended 31st March, 2017:

Particulars	₹
Rebate on bills discounted (not due on March 31st, 2016	**60,610**
Discount received	**6,10,800**
Bills discounted	**24,42,250**

An analysis of the bills discounted is as follows:

Amount (₹)	Due Date
3,75,000	**April 15, 2017**
4,90,000	**May 6, 2017**
2,45,000	**June 1, 2017**
3,68,000	**June 20, 2017**
4,85,000	**July 4, 2017**

The rate of discount is 12% per annum. You are required to:

(i) Calculate rebate on bills discounted as on 31st March, 2017.

(ii) Determine the amount of discount to be credited to the profit and loss account for the year ended 31st March, 2017.

(iii) Show the necessary journal entries in the books of M/s. Engco Bank Ltd. as on 31st March, 2017. **7**

(b) The following particulars relate to hire purchase transactions:

(i) X purchased three cars from Y on hire purchase basis, the cash price of each car being ₹2,00,000.

(ii) The hire purchaser charged depreciation @ 20% on diminishing balance method.

(iii) Two cars were seized by the hire vendor when second installment was not paid at the end of the second year. The hire vendor valued the two cars at cash price less 30% depreciation charged under it diminishing balance method.

(iv) The hire vendor spent ₹10,000 on repairs of the cars and then sold them for a total amount of ₹ 1,70,000.

You are required to compute:

(I) Agreed value of two cars taken back by the hire vendor.

(II) Book value of car left with the hire purchaser.

(III) Profit or Loss to hire purchaser on two cars taken back by their hire vendor.

(IV) Profit or Loss of cars repossessed, when sold by the hire vendor. **8**

Answer:

7. (a) (I) **Calculation of Rebate on Bills Discounted as on 31st March 2017**

Amount (₹)	Due date	No of days after 31st March,2017	Product
3,75,000	April 15, 2017	15	56,25,000
4,90,000	May 6, 2017	36	1,76,40,000
2,45,000	June 1, 2017	62	1,51,90,000
3,68,000	June 20, 2017	81	2,98,08,000
4,85,000	July 4, 2017	95	4,60,75,000
			11,43,38,000

Amount of rebate on bills = ₹11,43,38,000 × 12% × 1/365 = ₹37,591 (approx).

(II) Determination of Amount of Discount to be Credited to the Profit and Loss Account for the Year ended 31st March, 2017

Particulars	Amount (₹)
Opening Rebate on Bills Discounted	60,610
Add: Discount received during the year	6,10,800
	6,71,410
Less: Closing rebate on Bills discounted	(37,591)
Amount transferred to profit and Loss Account	6,33,819

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Date	Particular	Dr.(₹)	Cr. (₹)
(i)	Rebate on Bills discounted A/c Dr. To Discount on Bills A/c (being transfer of Opening unexpired discount on bills)	60,610	60,610
(ii)	Discount on Bills A/c Dr. To Rebate on Bills discounted A/c (Being the closing unexpired discount provided)	37,591	37,591
(iii)	Discount on Bills A/c Dr. To Profit & Loss A/c (Being the t/f of discount earned)	6,33,819	6,33,819

7. (b)

No.	Particulars	₹
(i)	Price of two cars = ₹2,00,000 × 2	4,00,000
	Less: Depreciation for the first year @ 30%	1,20,000
		2,80,000
	Less: Depreciation for the second year = ₹2,80,000 × $\frac{30}{100}$	84,000
	Agreed value of two cars taken back by the hire vendor	1,96,000
(ii)	Cash purchase price of one car	2,00,000
	Less: Depreciation on ₹2,00,000 @ 20% for the first year	40,000
	Written drown value at the end of first year	1,60,000
	Less: Depreciation on ₹1,60,000 @ 20% for the second year	32,000
	Book value of car left with the hire purchaser	1,28,000
(iii)	Book Value of one car as calculated working note (ii) above	1,28,000
	Book value of two cars = ₹1,28,000 × 2	2,56,000

	Value at which the two cars were taken back, calculated in working note (i) above Hence, loss on cars taken back = ₹2,56,000 – ₹1,96,000 =	1,96,000 60,000
(iv)	Sale proceeds of cars of cars repossessed Less: Value at which plant were taken back ₹1,96,000 Repair ₹ 10,000	1,70,000 2,06,000
	Loss on resale	36,000

8. (a) ABC Ltd. is installing a new plant for its production facility. It has incurred these costs:

	₹
Cost of the plant (cost per supplier's invoice plus taxes)	**25,00,000**
Initial delivery and handling costs	**2,00,000**
Cost of site preparation	**6,00,000**
Consultants used for advice on the acquisition of the plant	**7,00,000**
Interest charges paid to supplier of plant for deferred credit	**2,00,000**
Estimated dismantling costs to be incurred after 7 years	**3,00,000**
Operating losses before commercial production	**4,00,000**

Please advise ABC Ltd. on the costs that can be capitalized in accordance with AS 10 (Revised). **4**

(b) State briefly the main features of the Electricity Act, 2003. **7**

(c) What is meant by cost of internally generated software? **4**

Answer:

8. (a) According to AS 10 (revised), these costs can be capitalized:

	₹
Cost of the plant	25,00,000
Initial delivery and handling costs	2,00,000
Cost of site preparation	6,00,000
Consultants' fees	7,00,000
Estimated dismantling costs to be incurred after 7 years	3,00,000
	43,00,000

Note: Interest charges paid on "Deferred credit terms" to the supplier of the plant (not a qualifying asset) of ₹2,00,000 and operating losses before commercial production amounting to ₹4,00,000 are not regarded as directly attributable costs and thus cannot be capitalised. They should be written off to the Statement of Profit and Loss in the period they are incurred.

(b) Main Features of the Electricity Act, 2003

(i) The Activities like generation, transmission and distribution of power have been separately identified.
(ii) The Act de-licenses power generation completely (except for hydro power projects over a certain size)
(iii) 10% of the power supplied by suppliers and distributors to the consumers has to be generated using renewable and non-conventional sources of energy.
(iv) Setting up State Electricity Regulatory Commission (SERC) made mandatory.
(v) Appellate Tribunal to hear appeals against the decision of the CERC and SERCs.
(vi) Ombudsman scheme for consumers' grievance redressal.
(vii) Provision for private licensees in transmission and entry in distribution through an

independent network.

(viii) Metering of all electricity supplied made obligatory.

(ix) Provision relating to theft of electricity made more strict.

(c) Cost of Internally generated software

The cost at internally generated software is the sum of the expenditure incurred from the time when the software first met the recognition criteria for an intangible asset as stated in AS – 26 given earlier. An expenditure which did not meet the recognition criteria as aforesaid and expensed in an earlier financial statement should not be reinstated if the recognition criteria are met later.

The cost of internally generated software comprise all expenditure that can be directly attributed on allocated on a reasonable and consistent basis to create the software for its intended use. The cost includes.

(a) Expenditure on materials and services used or consumed in developing the software.

(b) The salaries, wages and other employment related costs of personnel directly engaged in developing the software.

(c) Any expenditure that is directly attributable to generate the software.

(d) Overheads related to developing the software and that can be allocated on a reasonable and consistent basis to the software (for example an allocation of the depreciation of fixed assets insurance premium and rent). Allocation of overheads is made on the normal acceptable basis.

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

(a) Non-integral foreign operation

(b) Changes in Accounting policy

(c) Characteristics of Depreciation

(d) The Accrual Concept

Answer:

9. (a) Non-integral foreign operation

Accounting Standard – 11 does not define the non-integral foreign operation, however it describes the same. As per the accounting standard following are the indications of non-integral foreign operation-

- Control by reporting enterprise – While the reporting enterprise may control the foreign operation the activities of foreign operation are carried independently without much dependence in reporting enterprise.
- Transactions with the reporting enterprises are not a high proportion of the foreign operation's activities.
- Activities of foreign operation are mainly financed by its operations or from local borrowings. In other words it raises its finance independently and is in no way dependent on reporting enterprises.
- Foreign operation sales are mainly in currencies other than reporting currency.
- All the expenses by foreign operations are primarily paid in local currency not in the reporting currency.
- Day to day cash flows of the reporting enterprises is independent of the foreign enterprises cash flows.
- Sales prices of the foreign enterprises are not affected by the day to day changes in exchange rate of the reporting currency of the foreign operation.
- There is an active sales market for the foreign operation product.

The above are only indicators and not decisive/conclusive factors to classify the foreign operations as non-integral, much will depend on factual information, situations of the particular case end therefore judgment is necessary to determine the appropriate classification.
Controversies may arise in deciding the foreign branches of the enterprises into integral or non-integral. However there may not be any controversy that subsidiary associates and joint venture are non-integral foreign operation.
In case of branches classified as independent for the purpose of accounting are generally classified as non-integral foreign operations.

9. (b) Changes in Accounting Polices:

Any change in the accounting policies which has a material effect in the current period or which is reasonably expected to have a material effect in the later period should be disclosed.

In the case of a change in accounting policies, having material effect in the current period the amount by which any item in the financial statement , is affected by such change should also be disclosed to the extent as ascertainable, otherwise the fact that the effect is not (wholly or partially) ascertainable, should be disclosed.

The following are not considered as changes in accounting policies:

(a) Accounting policies adopted for events or transactions that differ in substance at present (introducing Group Gratuity Scheme for employees in place of adhoc ex-gratia payment earlier followed.)

(b) Accounting policies pertains to events or transactions which did not occur previously or that were immaterial.

9. (c) The Characteristics of Depreciation are:

i. It is a charge against profit.

ii. It indicates diminution in service potential.

iii. It is an estimated loss of the value of an asset. It is not an actual loss.

iv. It depends upon different assumptions, like effective life and residual value of an asset.

v. It is a process of allocation and not of valuation.

vi. It arises mainly from an internal cause like wear and tear or depletion of an asset. But it is treated as any expense charged against profit like rent, salary, etc., which arise due to an external transaction.

vii. Depreciation on any particular asset is restricted to the working life of the asset.

viii. It is charged on tangible fixed assets. It is not charged on any current asset. For allocating the costs of intangible fixed assets like goodwill. etc, a certain amount of their total costs may be charged against periodic revenues. This is known as amortization.

9. (d) The accrual concept

The accrual concept is based on recognition of both cash and credit transactions. In case of a cash transaction, owner's equity is instantly affected as cash either is received or paid. In a credit transaction, however, a mere obligation towards or by the business is created. When credit transactions exist (which is generally the case), revenues are not the same as cash receipts and expenses are not same as cash paid during the period.

When goods are sold on credit as per normally accepted trade practices, the business gets the legal right to claim the money from the customer. Acquiring such right to claim the consideration for sale of goods or services is called accrual of revenue. The actual collection of money from customer could be at a later date.

Similarly, when the business procures goods or services with the agreement that the payment will be made at a future date, it does not mean that the expense effect should not be recognized. Because an obligation to pay for goods or services is created upon the procurement thereof, the expense effect also must be recognized.

Today's accounting systems based on accrual concept are called as Accrual System or Mercantile System of Accounting.