INTERMEDIATE EXAMINATION

GROUP I

(SYLLABUS 2008)

SUGGESTED ANSWERS TO QUESTIONS

JUNE 2013

Paper-5 : FINANCIAL ACCOUNTING

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

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

Answer Question No. 1, which is compulsory and any five questions from the rest.

1. (a) From the four alternatives given against each of the following cases, indicate the correct answer: (just state A, B, C or D) **1x6=6**

(i) At the year end, an amount outstanding for electricity consumed during that year will be dealt in the Accounts for the year by following the accounting concept of
(A) Realisation
(B) Accrual
(C) Conservatism
(D) None of the above

(ii) Contingent Liability would appear
(A) On the liability side
(B) On the asset side
(C) As a note in Balance Sheet
(D) None of the above

(iii) The effect of timing difference is called as
(A) Current Tax
(B) Deferred Tax
(C) Minimum Tax
(D) None of the above

(iv) At the time of public issue of shares the sequence of steps taken are
(A) Issue prospectus > Select Merchant Banker > Receive money from applicants
(B) Select Merchant Banker > Receive money from applicants > Issue prospectus
(C) Select merchant Banker > Issue prospectus > Receive money from applicants
(D) None of the above

(v) Interest and Dividends received in the case of a manufacturing concern should be classified as cash flow from
(A) Operating activities
(B) Financing activities
(C) Investing activities
(D) None of the above

(vi) Redemption of Preference Share of a Company is
(A) Compulsory
(B) Optional
(C) Conditional
(D) None of the above

(b) State whether the following statements are TRUE (T) or FALSE (F): 1x5=5

(i) Sinking fund method of depreciation takes into account the cost of an asset as well as interest also thereon at given rate.

(ii) Purchase of a technical know-how is revenue expenditure.

(iii) Transactions are recorded on accrual basis in the 'Income and Expenditure Account'.

(iv) When the goods are returned by Branch, goods sent to Branch account will be debited in the books of Head Office.

(v) Balance of securities premium account is available for redemption of preference shares.

(c) Fill up the blanks in the following sentences using appropriate word from the alternatives indicated: 1x5=5

(i) Royalty account is a __________________ account in nature (nominal/real).

(ii) The excess of issue price of share over their face value is termed as ____________ (discount/securities premium).

(iii) Revenue nature receipts and payments which relates to a particular accounting period are shown in the __________________ account (Receipts and Payments/Income and Expenditure).

(iv) As per AS-26, at the preliminary project stage the internally generated software should ______________ recognized as an asset (be/not be).

(v) As per Indian Companies Act, minimum limit of managerial remuneration for full time single managerial personnel is ________________ (5%/3%).

(d) Match the following in Column I with the appropriate in Column II: 1x5=5

Column I	Column II
(i) Repossess the goods	(A) AS-26
(ii) Non Performing Assets	(B) Banking Companies
(iii) Intangible Assets	(C) Piecemeal distribution
(iv) Related Party Disclosures	(D) Hire Purchase System
(v) Maximum Loss Method	(E) AS-28
	(F) No matching statement found

(e) In the following cases, one out of four answers is correct. Indicate the correct answer (= 1 mark) and give brief workings in support of your answer (= 1 mark): (1+1)x2=4

(i) Working capital of a company is ₹ 21,28,000 and total debts are ₹ 42,50,000. If the company's long term debts are ₹ 27,30,000 then current ratio will be
(A) 0.78 : 1 (B) 1.4 : 1 (C) 1.14 : 1 (D) 2.4 : 1

(ii) A and B are partners sharing profit/loss in the ratio of 3:2. They admit C into partnership for $\frac{1}{6}$ share in the profit which he acquired equally from old partners. The new profit sharing ratio will be
(A) 3 : 2 : 1 (B) 1: 1: 1 (C) 31 : 19 : 10 (D) 14 : 6 : 4

Answer:

1. (a)

(i)	B	When business procures goods or services with the agreement that the payment will be made at a future date. An obligation to pay for goods or services is created upon the procurement thereof.
(ii)	C	
(iii)	B	Current tax is the amount of income tax determined to be payable or recoverable in respect of the taxable income (tax loss) for a period. According to Section 115JB of Income Tax Act, 1961, the tax payable on the total income as computed under the Income Tax Act in respect of any previous year cannot be less than 18.5% of the Book Profit. Deferred tax is the timing difference between accounting income & taxable income.
(iv)	C	
(v)	C	
(vi)	A	According to the Companies Act, 1956, a company can issue only redeemable preference shares.

(b)

(i)	True	
(ii)	False	If technical knowhow is one time investment then it is assets. On the other hand, pay for technical knowhow in the nature of payment for consultancy it is purely an expense.
(iii)	True	
(iv)	True	
(v)	False	Because, CRR is allowed from these profits: - (i) General Reserve, (ii) Reserve Fund (iii) Any other fund and (iv) Profit & Loss A/c.

(c) (i) Nominal
(ii) Securities Premium
(iii) Income & Expenditure
(iv) Not be
(v) 5%

(d) (i) (D) – Hire Purchase System
(ii) (B) – Banking Companies
(iii) (A) – AS-26
(iv) (F) – No matching statement found
(v) (C)- Piecemeal distribution

(e) (i) (D) – 2.4:1; Current Liabilities = Total debts – Long Term debts = 4250000 – 2730000
= ₹ 1520000.
Current Assets = W.C. + C.L. = 2128000 + 1520000 = 3648000

$$\text{Current Ratio} = \frac{\text{C.A.}}{\text{C.L.}} = \frac{3648000}{1520000} = 2{:}4{:}1$$

(ii) (C) 31:19:10; A's new share = $\frac{3}{5} - \frac{1}{6} \times \frac{1}{2} = \frac{3}{5} - \frac{1}{12} = \frac{36-5}{60} = \frac{31}{60}$

B's new share = $\frac{2}{5} - \frac{1}{6} \times \frac{1}{2} = \frac{2}{5} - \frac{1}{12} = \frac{24-5}{60} = \frac{19}{60}$

C's new share = $\frac{1}{6}$ or $\frac{10}{60}$

Hence, new ratio = 31:19:10

2. (a) Prepare the Balance Sheet as at 31.03.2012 from the particulars furnished by M/s PRAN Ltd. as per revised Schedule VI of the Companies Act: 5

Particulars	Amount (₹)	Particulars	Amount (₹)
Share Capital	7,50,000	Capital Redemption Reserve	20,000
Calls in Arrear	5,000	Investment in 6% GP Notes (Tax Free)	3,00,000
Land	2,20,000	Profit and Loss Account	65,000
Building	2,00,000	Cash in Hand	25,000
General Reserve	50,000	Debtors	10,000
Loan from IDBI	1,00,000	Stock	1,00,000
Sundry Creditors	1,50,000	Stock	1,00,000
		Goodwill	25,000

(b) A company with its Head Office at Kolkata has a Branch at Chennai. The Branch receives all goods from Head Office who remits cash for all expenses. Total Sales by Branch for year ended 31.03.2012 amounted to ₹ 6,50,000 out of which 75% on Credit. Other details for Chennai Branch were as under:

Particulars	01.04.2011	30.03.2012
Stock	4,000	30,000
Debtor	45,000	30,000
Petty Cash	250	---

Petty Cash sent by Head Office ₹ 3,000 but ₹ 2,500 is spent for Petty Expenses. The Expenses of ₹ 45,000 are actually spent by Branch. All sales are made by the Branch at Cost plus 25%.

You are required to prepare the Chennai Branch A/c in the Books of Head Office for the year ended 31.03.2012. 5

(c) Ram, Rahim and Robert are partners in a firm sharing profit and losses in the proportion of 3:3:2. Their Balance Sheet as on 31.03.2013 was as follows:

Liabilities		₹	Assets	₹
Partners Capital Accounts:			Bank	55,000
Ram	75,000		Stock	69,000
Rahim	75,000		Investments	6,000
Robert	1,00,000		Debtors	70,000
		2,50,000	Land and Building	1,25,000
Partners Current Account:			Goodwill	25,000
Ram	15,000			
Rahim	25,000			
Robert	12,500			
		52,500		
Sundry creditors		47,500		
		3,50,000		3,50,000

They decided to dissolve the firm on 01.04.2013. They report the result of realization as follows:

Land and Buildings	**90,000 – realized in cash**
Debtors	**60,000 – realized in cash**
Investments	**5,500 – taken over by Ram**
Stock	**75,500 – taken over by Rahim**
Goodwill	**18,000 – taken over by Robert**

The realization expenses amounted to ₹ 2,000. Close the Accounts of the firm. **5**

Answer:

2. (a)

Balance Sheet as at 31.03.2012.

I. Equity & Liabilities	**Note No.**	**Current Year**	**Previous Year**
1. Share Holders Fund:			
a) Share Capital	1	7,45,000	---
b) Reserve & Surplus	2	1,35,000	---
c) Money received against Share warrant			
2. Share Application Money Pending Allotment			
3. Non-Current Liabilities:			
a) Long Term Borrowings	3	1,00,000	---
b) Deferred Tax Liability			
c) Other Long Term Liabilities			
d) Long Term Provision			
4. Current Liabilities:			
a) Short Term Liability			
b) Trade Payable	4	1,50,000	---
c) Other Current Liability			
d) Short Term Provision			
Total		**11,30,000**	---
II. Assets:			
1. Non Current Assets:			
a) Fixed Assets			
1. Tangible Assets	5	6,70,000	---
2. Intangible Assets	6	25,000	---
3. Capital Work in Progress			
4. Intangible Asset Under Development			
b) Non-Current Investment	7	3,00,000	---
c) Deferred Tax Asset (Net)			
d) Long Term Loans and Advances			
e) Other Non-Current Assets			
2. Current Assets:			
a) Current Investment			
b) Inventories	8	1,00,000	---
c) Trade Receivable	9	10,000	---
d) Cash & Cash Equivalent	10	25,000	---
e) Short Term Loans & Advances			
f) Other Current Assets			

Total		**11,30,000**	---

Annexure

Note No. 1: SHARE CAPITAL

Share Capital	7,50,000.00	
Less: Calles in Arrear	5,000.00	7,45,000.00
Total		7,45,000.00

Note No. 2: Reserve & Surplus

General Reserve	50,000.00	
Capital Redemption Reserve	20,000.00	
Profit & Loss A/c	65,000.00	1,35,000.00
Total		1,35,000.00

Note No. 3: Long Term Borrowing

Loan From IDBI	1,00,000.00	
		1,00,000.00
Total		1,00,000.00

Note No. 4: Trade Payable

Sundry Creditor	1,50,000.00	
		1,50,000.00
Total		1,50,000.00

Note No. 5: Tangible Asset

Land	2,20,000.00	
Building	2,00,000.00	
Plant & Machinery (Bal. Fig.)	2,50,000.00	6,70,000.00
Total		6,70,000.00

Note No. 6: Intangible Asset

Goodwill	25,000.00	
		25,000.00
Total		25,000.00

Note No. 7: Non Current Investment

Investment in 6% G.P. Notes	3,00,000.00	
		3,00,000.00
Total		3,00,000.00

Note No. 8: Inventories

Stock	1,00,000.00	
		1,00,000.00
Total		1,00,000.00

Note No. 9: Trade Receivable

Debtors	10,000.00	
		10,000.00
Total		10,000.00

Note No. 10: Cash & Cash Equivalent

Cash in Hand	25,000.00	
		25,000.00

Total		25,000.00

Note: There is no item of Plant & Machinery in Question. It may be considered as balancing figure to tally the Balance Sheet.

(b)

In the Books of Head Office
Chennai Brach Account

Particulars	Amount ₹	Particulars	Amount ₹
To Balance B/d. Stock – 4,000 Debtors – 45,000 Petty Cash - 250	49,250	By Bank A/c Cash Sales – 1,62,500 Collection from Debtors – 5,02,500	6,65,000
To Goods Sent to Branch	5,46,000		
To Bank A/c Expenses – 45,000 Petty Cash sent – 3,000 To General P/L A/c	48,000 82,500	By Balance C/d Stock – 30,000 Debtors – 30,000 Petty Cash - 750	60,750
	7,25,750		7,25,750

Working Notes:

1.Petty Cash Account

To Balance B/d	250	By Petty Expenses	2,500
To Bank – Cash sent by H.O.	3,000	By Balance c/d	750
	3,250		3,250

2.Memorandum Debtors Account

To Balance B/d	45,000	By Bank A/c (Collection)	5,02,500
To Credit Sale (650000 x 75%)	4,87,500	By Balance c/d	30,000
	5,32,500		5,32,500

3.Calculation of Cost of Goods Sent:

(a) Cost of Goods Sold = 6,50,000 x 100/125 = 5,20,000

(b) Cost of Goods Sold = Opening Stock + Cost of Goods Sent – Closing Stock
5,20,000 = 4,000 + Cost of Goods sent – 30,000
Hence, Cost of Goods sent = 5,46,000

(c) **Realisation Accounts.**

Particulars	Amount ₹	Particulars	Amount ₹
To Stock	69,000	By Sundry Creditors	47,500
To Investments	6,000	By Bank (assets realized)	1,50,000
To Debtors	70,000	By Ram Capital A/c (Investments)	5,500
To Land & Buildings	1,25,000	By Rahim's Capital A/c (Stock)	75,500
To Goods will	25,000	By Robert's Capital A/c (Goodwill)	18,000
To Bank (Expenses)	2,000	By Loss transferred to current A/c.	
To Bank (Creditors)	47,500	Ram 18,000	
		Rahim 18,000	
		Robert 12,000	48,000
	3,44,500		3,44,500

Current Accounts

	Ram	Rahim	Robert		Ram	Rahim	Robert
To Realisation A/c	5,500	75,500	18,000	By Balance b/d	15,000	25,000	12,500
To Realisation A/c	18,000	18,000	12,000	By Capital A/c	8,500	68,500	17,500
	23,500	93,500	30,000		23,500	93,500	30,000

Capital Accounts

	Ram	Rahim	Robert		Ram	Rahim	Robert
To Current A/c	8,500	68,500	17,500	By Balance b/d	75,000	75,000	1,00,000
To Bank A/c (bal. fig.)	66,500	6,500	82,500				
	75,000	75,000	1,00,000		75,000	75,000	1,00,000

Bank Accounts

	₹		₹
To Balance b/d	55,000	By Realisation A/c (expenses)	2,000
To Realisation	1,50,000	By Realisation A/c (Creditors)	47,500
(Assets realized)		By Ram's Capital A/c	66,500
		By Rahim's Capital A/c	6,500
		By Robert's Capital A/c	82,500
	2,05,000		2,05,000

3. (a) Explain what is meant by fixed rights and fluctuation rights in recoupment of short working. **2**

(b) On 1st April, 2010 Guru purchased a machinery for cash price of ₹ 5,06,872 on hire purchase system from Machinery Mart. Payment to be made ₹ 1,50,000 down and the balance by four equal annual installments. Interest is charged @ 15% per annum. Guru depreciates machinery at 20% per annum on written down value method. Guru paid down payment and first two installments but could not pay the remaining installments. On 31st March, 2013 the Machinery Mart took possession of machinery.
You are required to prepare Machinery Account and Machinery Mart Account in the books of Guru. **7**

(c) X Co. Ltd. decided to buyback 10,000 equity shares of ₹ 10 each. It sold investments (Face value) ₹ 70,000 for ₹ 95,000. It bought 10,000 equity shares in the open market for ₹ 90,000 out of free reserves. The Shares bought back were cancelled. The expenses of buyback was ₹ 1,000.
Pass necessary journal entries in the books of X Co. Ltd. to record the above transactions. **6**

Answer:

3. (a) Fixed right: When the lessee can recoup short workings within a certain period from the date of lease it is known as fixed right. For example, shortworkings can be recouped within four years from the date of lease. So, after 4 years from the date of lease, the shortworkings cannot be recouped.

Fluctuating right: In this type of agreement, lessess can recoup shortworkings of any year during the next following year(s). for example, short workings can be recouped in the year subsequent to the year of shortworkings.

(b) Since the problem is silent regarding the amount of equal instalment, it is assumed that the balance of cash price will be paid equally along with the interest on the amount outstanding.

Calculation of Interest

Opening Cash Price	Installment	Interest	Payment of Principle	Closing Cash Price
5,06,872	1,50,000	----	1,50,000	3,56,872
3,56,872	1,42,749	3,56,872 X 15% = 53,531	89,218	2,67,654
2,67,654	1,29,366	2,67,654 X 15% = 40,148	89,218	1,78,436
1,78,436	1,15,972	1,78,436 X 15% = 26,754	89,218	89,218
89,218	1,02,601	89,218 X 15% = 13,383	89,218	---

In the Books of Guru
Machinery Account

Dr. **Cr.**

Date	Particulars	Amount (₹)	Date	Particulars	Amount (₹)
01.04.2010	To Machinery Mart A/c	5,06,872	31.03.2011	By Depreciation A/c (5,06,872 x 20%)	1,01,374
				By Balance c/d	4,05,498
		5,06,872			**5,06,872**
01.04.2011	To Balance b/d	4,05,498	31.03.2011	By Depreciation A/c (4,05,498 x 20%)	81,100
				By Balance c/d	3,24,398
		4,05,498			**4,05,498**
01.04.2012	To Balance b/d	3,24,398	31.03.2011	By Depreciation A/c (3,24,398 x 20%)	64,880
				By Machinery Mart A/c (Machinery Re-Possess)	89,218
				By Balance c/d	1,70,300
		3,24,398			**3,24,398**

Machinery Mart Account

Dr. **Cr.**

Date	Particulars	Amount (₹)	Date	Particulars	Amount (₹)
01.04.2010	To Bank A/c	1,50,000	01.04.2010	By Machinery A/c	5,06,872
31.03.2011	To Bank A/c	1,42,749	31.03.2011		
31.03.2011	To Balance c/d	2,67,654		By Interest A/c	53,531
		5,60,403			**5,60,403**
31.03.2012	To Bank A/c	1,29,366	01.04.2011	By Balance b/d	2,67,354
31.03.2012	To Balance c/d	1,78,436	31.03.2012	By Interest A/c	40,148
		3,07,802			**3,07,802**
31.03.2013	To Machinery A/c	89,218	01.04.2012	By Balance b/d	1,78,436
31.03.2013	To Balance c/d (Installment Overdue)	1,15,972	31.03.2013	By Interest A/c	26,754

		2,05,190			**2,05,190**

(c)

Journal of X Co. Ltd.

Particulars	**Dr. ₹**	**Cr. ₹**
Bank A/c Dr.	95,000	
To Investment A/c		70,000
To Profit on sale of investment		25,000
(Being Sale of investment)		
Equity Share Capital Account Dr.	1,00,000	
To Equity Shareholder account		90,000
To Capital reserve account		10,000
(Being transfer of equity share capital to shareholders account and profit on purchase of own shares)		
Free reserves account Dr.	1,00,000	
To Capital Redemption reserve account		1,00,000
(being the nominal value of shares purchased)		
Buyback expenses account Dr.	1,000	
To Bank		1,000
(Being Expenses of buyback)		
Profit on sale of investment account Dr.	25,000	
To Profit and Loss Account		25,000
(Being transfer of profit on sale of investment to P&L account)		
Profit and Loss Account Dr.	1,000	
To Buyback expenses account		1,000
(Being transfer of buyback expenses to P&L Account)		

4. (a) State whether the following items are in the nature of Capital, Revenue and/or Deferred Revenue Expenditure.

(i) Expenditure on special advertising campaign ₹ 66,000; suppose the advantage will be received for six years.

(ii) An amount of ₹ 8,000 spent as legal charges for abuse of Trade Mark.

(iii) Legal charges of ₹ 15,000 incurred for raising loan.

(iv) Share issue expenses ₹ 5,000.

(v) Freight charges on a new machine ₹ 1,500 and erection charges ₹ 1,800 for that machine. 1x5=5

(b) A, B and C started a partnership firm on 01.01.2012. A introduced ₹ 10,000 on 01.01.2012 and further introduced ₹ 4,000 on 1.7.2012. B introduced ₹ 25,000 at first on 1.1.2012 but withdraw ₹ 5,000 from the business on 31.09.2012. C introduced ₹ 15,000 at the beginning on 1.1.2012, increased it by ₹ 5,000 on 1.4.2012 and reduced it to ₹ 10,000 on 1.11.2012.

During the year 2012 they made a net profit of ₹ 75,500. The partners decided to provide interest on their capitals at 10% p.a. and to divide the balance of profit in their effective capital contribution ratio.

Prepare the Profit and Loss Appropriation Account for the year ended 31.12.2012. 5

(c) On 31st December, 2011 two machines which were purchased on 01.10.2008 costing ₹ 50,000 and ₹ 20,000 respectively had to be discarded and replaced by two new machines costing ₹ 50,000 and ₹ 25,000 respectively.

One of the discarded machine was sold for ₹ 20,000 and other for ₹ 10,000. The balance of Machinery Account on April 1, 2011 was ₹ 3,00,000 against which the depreciation provision stood at ₹ 1,50,000. Depreciation was provided @ 10% on Reducing Balance Method.

Prepare the Machinery Account, Provision for Depreciation Account and Machinery Disposal Account. 5

Answer:

4. (a) (i) As per Para 56 of AS 26, the expenditure incurred on intangible items would have to expense off when they are incurred. So, the Advertisement Expenses is not carried forward to the next year and the full amount is shown in the Profit & Loss A/c. So, ₹ 66,000 consider for revenue expenditure.

(ii) Revenue expenditure ₹ 8,000

(iii) Capital expenditure ₹ 15,000

(iv) Capital expenditure ₹ 5,000

(v) Capital expenditure = 1500 + 1800 = ₹ 3,300.

(b) Calculation of effective capital contribution: (fig in ₹)

A -	10000 for 6 months =	60,000
	14000 for 6 months =	84,000
		1,44,000
B -	25000 for 9 months =	2,25,000
	20000 for 3 months =	60,000
		2,85,000
C -	15000 for 3 months =	45,000
	20000 for 7 months =	1,40,000
	10000 for 2 months =	20,000
		2,05,000

Profit sharing ratio = Effective Capital Ratio – 144:285:205

Interest on Capital –

A – 144000 x 10/100 x 1/12 = 1200

B – 285000 x 10/000 x 1/12 = 2375

C – 205000 x 10/100 x 1/12 = 1708

Profit and Loss Appreciation Account for the year ended 31.12.2012

Dr. **Cr.**

Particulars	**Amount (₹)**	**Particulars**	**Amount (₹)**
To Interest on Capital		By Profit & Loss A/c	75,500
A – 1200		(Net Profit)	
B – 2375			
C - 1708	5283		
To Share of Profits:			
A – 70217 x 144 / 634 =	15948		
B – 70217 x 285 / 634 =	31565		
C – 70217 x 205 / 634 =	22704		
	75,500		**75,500**

(c)

Machinery Account

Date	Particulars	Amount (₹)	Date	Particulars	Amount (₹)
1/4/2011	To Balance b/d	3,00,000	31-12-2011	By Machine Disposal A/c	70,000
	To Bank A/c	75,000		31-03-2012	
				By Balance c/d	3,25,000
		3,75,000			3,75,000

Provision for Depreciation Account

Date	Particulars	Amount (₹)	Date	Particulars	Amount (₹)
1/4/2011	To Machine Disposal A/c (16135 + 4040)	20,175	1/4/2011	By Balance b/d	1,50,000
31-3-2012	To Balance c/d	1,41,314	31-3-2012	By P/L A/c	11,489
		1,61,489			1,61,489

Machine Disposal Account

Date	Particulars	Amount (₹)	Date	Particulars	Amount (₹)
1/4/2011	To Machine A/c	70,000	31/12/2011	By Provision for Depreciation A/c	16,135
				By Provision for Depreciation (on two Machine for 9 months)	4,040
				By Bank A/c	30,000
				By P/L A/c (balancing figure)	19,825
		70,000			70,000

Working: 1 Calculation of Depreciation of Two Discarded Machine till 1.4.2012

	Machine 1	Machine 2	Total
Value of Machine as on 1-10-2008	50,000	20,000	70,000
Less: Depreciation for 08-09 @ 10% (from 01.10.2008 to 31.03.2009)	2,500	1,000	3,500
	47,500	19,000	66,500
Less: Depreciation for 09-10 @ 10%	4,275	1,900	6,650
	42,750	17,100	59,850
Less: Depreciation for 10-11 @ 10%	4,275	1,710	5,985
	38,475	15,390	53,865

Hence, Provision for Depreciation on Machine Disposal = 3,500+6,650+5,985 = 16,135

Working Note: 2 Depreciation on Discarded Machine:

Book Value of Machine as on 01.04.2011	53,865
Less: Depreciation @ 10% for 9 months (till 31.12.2011) (53,865 x 10% x 9/12)	4,040
Value of Discarded Machine as on selling date	49,825

Working Note: 3 Depreciation of Machine in Use:

Value of Machine on 01.04.2011		3,00,000
Less: Cost of Discarded Machine		70,000
		2,30,000
Less: Provision for Depreciation on 1.4.2011	1,50,000	
Less: Depreciation on Discarded Machine 1.4.11	16,135	1,33,865
		96,135
Depreciation @ 10% on ₹ 96,135		9,614
Add: Depreciation for 3 months on 75,000 @ 10%		1,875
Total Depreciation		11,489

5. (a) **Jodhpur Club furnishes you the Receipts and Payments Account for the year ended 31.03.2013.**

Receipts	₹	Payment	₹
Cash in hand (01.04.2012)	40,000	Salary	20,000
Cash at Bank (01.04.2012)	1,00,000	Repair expenses	5,000
Donations	50,000	Furnitures	60,000
Subscriptions	1,20,000	Investments	60,000
Entrance fee	10,000	Misc. Expenses	5,000
Interest on investments	1,000	Insurance premium	2,000
Interest from banks	4,000	Billiards table and other sports items	80,000
		Stationary expenses	1,500
		Drama expenses	5,000
Sale of old newspaper	1,500	Cash in hand (31.03.2013)	26,500
Sale of drama tickets	10,500	Cash at Bank (31.03.2013)	72,000
	3,37,000		3,37,000

Additional information:

(i) Subscriptions in arrear for 2012-13 ₹ 9,000 and subscription in advance for the year 2013-14 ₹ 3,500.
(ii) ₹ 400 was the insurance premium outstanding as on 31.03.2013.
(iii) Miscellaneous expenses prepaid ₹ 900.
(iv) 50% of donation is to be capitalized.
(v) Entrance fees to be treated as revenue income.
(vi) 8% interest has accrued on investments for five months.
(vii) Billiards table and other sports equipments costing ₹ 3,00,000 were purchased in the financial year 2011-12 and of which ₹ 80,000 was not paid 31.03.2012. There is no charge for Depreciation to be considered.

You are required to prepare Income and Expenditure Account for the year ended 31.03.2013 and Balance Sheet of the Club as at 31.03.2013. **10**

(b) **The cost of production of Product X is ₹ 450 which includes per unit cost of Material, Labour and overheads of ₹ 250, ₹ 110 and ₹ 90 respectively. At the end of the accounting year on 31.03.2013 the replacement cost of Raw Material is ₹ 210 per unit.**

There are 500 units of raw material in stock on 31.03.2013.

Calculate as per AS-2 the value of closing stock or Raw Material when:

(i) Finished Product is sold at ₹ 420 per unit,
(ii) Finished Product sold at ₹ 490 per unit. **5**

Answer:

5. (a)

Jodhpur Club
Income and Expenditure Account for the year ended 31.03.2013

Expenditure	₹	Income	₹
To Salary	20,000	By Subscription:	1,25,500
To Repair expenses	5,000	(₹ 1,20,000+9,000 – 3,500)	
To Misc. expenses (5,000 – 900)	4,100	By Donation @ 50%	25,000
(less prepaid)		By Entrance fee	10,000
To Insurance premium	2,400	By Sale of old newspaper	1,500
(Incl. Outstanding)		By Bank Interest	4,000
To Stationery expenses	1,500	By Interest on investments	3,000
To Drama Expenses	5,000	(60,000 x 8% x 5/12)+1,000	
To Excess of Income over Expenditure	1,41,500	By Sale of Drama tickets	10,500
	1,79,500		**1,79,500**

Balance Sheet as at 01.04.2012

Liabilities	Amount (₹)	Assets	Amount (₹)
Capital fund (bal. fig.)	3,60,000	Cash in hand	40,000
Billiards table outstanding	80,000	Cash at Bank	1,00,000
		Billiards table and other sports equipments	3,00,000
	4,40,000		**4,40,000**

Balance Sheet as at 31.03.2013

Liabilities		₹	Assets	₹
Capital fund	3,60,000		Cash in hand	26,500
Add: Donations	25,000		Cash at Bank	72,000
Excess of income over	1,41,500		Investments 60,000 +	
Expenditure		5,26,500	Accrued interest 2,000	62,000
Subscriber in advance		3,500	Furniture	60,000
Insurance premium outstanding		400	Prepaid Misc. Exp.	900
			Subscription arrear	9,000
			Billiards table and other	
			sports equipments	3,00,000
		5,30,400		**5,30,400**

(b) (i) In this situation net realizable value of the product is less than its total cost and cost of raw material is more than the replacement cost. Hence, raw material should be valued at replacement cost and the value of raw material stock will be – 500 units x ₹ 210 = ₹ 1,05,000.

(ii) In this situation the next realizable value of the product is more than its total cost, then the raw material should be valued at actual cost and value of raw material stock will be – 500 units x ₹ 250 = ₹ 1,25,000.

6. (a) Distinguish between Branch and Departmental Accounting. **2**

(b) The following items are extracted from the Balance Sheet of Best Ltd. as at 1st April, 2012:

Particulars	Amount (₹)
(i) 9% Preference Shares of ₹ 100 each	50,00,000
(ii) Equity Shares of ₹ 10 each	80,00,000
(iii) General Reserve	26,00,000
(iv) Securities Premium	20,00,000
(v) 12% Debentures	40,00,000

Profit before interest and tax for the year ending on 31.03.2013 was ₹ 44,80,000.
The Board of Directors of the Company proposed payment of Preference Share Dividend and Equity Share Dividend @ 20%. The Board also declared Capital Bonus out of General Reserve for making partly paid-up shares into fully paid-up. Ignore Corporate Dividend Tax.
Provision to be made for Taxation @ 30%.
7.5% of Net Profit to be transferred to General reserve.
You are required to show the Journal entries to be passed to incorporate the Recommendations and adjustments. 6

(c) Surya Co. Ltd. has three departments.
In made purchases during the financial year 2012-13 as below

Dept. A	= 2,000 units	at a total cost of ₹ 2,00,000
Dept. B	= 4,000 units	
Dept. C	= 4,800 units	

Stock as on 01.04.2012

Dept. A	= 240 units
Dept. B	= 160 units
Dept. C	= 304 units

Sales made were

Dept. A	= 2040 units at ₹ 20 each
Dept. B	= 3840 units at ₹ 22.50 each
Dept. C	= 4992 units at ₹ 25 each

The rate of gross profit is uniform for all the departments. Assume the unit price of opening stock and purchase unit cost are uniform.

Prepare Departmental Trading Account. 7

Answer:

6. (a)

The difference between Branch and Departmental are listed below:-

Departmental	Branch
1. Departmental always in Inland	1. It is either Inland or Foreign
2. All departments of a Business remain generally under one roof.	2. Branch of a Concern is established at different place in the same town or at different town.
3. Departments are made to increase the efficiency of the Business.	3. Branch is opened to increase the Sale.

(b)

Journal of Best Ltd.

Sl. No.	Date	Particulars		Dr. ₹	Cr. ₹
(i)	31.3.13	P/L A/c	Dr.	4,80,000	
		To Debenture Interest A/c			4,80,000
(ii)	31.3.13	P/L A/c	Dr.	12,00,000	
		To Provision for Taxation A/c			12,00,000
		Provision made for tax @ 30% on (44,80,000–4,80,000)			
(iii)	31.3.13	P/L A/c	Dr.	28,00,000	
		To Surplus A/c			28,00,000
		(Net profit 4000000 – 1200000 = 28 Lakhs transferred)			
(iv)	31.3.13	Surplus A/c	Dr.	20,50,000	
		To Proposed Pref. Dividend A/c			4,50,000
		To Proposed Equity Dividend A/c			16,00,000
		(Proposed Div. on P.S. 9% of 50,00,000 as on preference shares @ 20% on 80,00,000 on equity shares.)			
(v)	31.3.13	General Reserve A/c	Dr.	20,00,000	
		To Bonus to Shareholders A/c			20,00,000
		(Capital bonus declared to meet the final call money)			
(vi)	31.3.13	Surplus A/c	Dr.	2,10,000	
		To General Reserve A/c			2,10,000
		(General reserve @ 7.5% of net profit ₹ 28,00,000)			
(vii)	31.3.13	Equity Share Final Call A/c	Dr.	20,00,000	
		To E.S. Capital A/c			20,00,000
		(Equity share final call money due)			
(viii)	31.3.13	Bonus to Shareholders A/c	Dr.	20,00,000	
		To Equity Share Final Call A/c			20,00,000
		(Bonus to shareholder utilized			

(c)

Surya Co. Ltd.
Departmental Trading Account for the year ended 31.03.2013

Dr. **Cr.**

Particulars	Dept. A ₹	Dept. B ₹	Dept. C ₹	Particulars	Dept. A ₹	Dept. B ₹	Dept. C ₹
To Op. Stock @ 80% of cost	3,840	2,880	6,080	By Sales	40,800	86,400	1,24,800
				By Closing Stock	3,200	5,760	2,240
To Purchases	32,000	72,000	96,000				
To Gross profit @ 20%	8,160	17,280	24,960				
	44,000	92,160	1,27,040		44,000	92,160	1,27,040

Working Notes:

1. Cost of each unit of the different departments. Since, the rate of G.P. is uniform for all products. Assuming if all goods purchased was sold then the gross profit would be :
   Total sales
   A = 2,000 x ₹20 = 40,000
   B = 4,000 x ₹22.50 = 90,000
   C = 4,800 x ₹25 = 1,20,000 2,50,000

Less:	Total Cost Price of purchases	2,00,000
	Expected Gross Profit	50,000

$\therefore$ Ratio of G.P. = $\dfrac{50{,}000}{2{,}50{,}000} \times 100 = 20\%$

$\therefore$ **Cost Price Per Unit**

A = 20 – 20 x 20% = 16
B = 22.50 – 22.50 x 20% = 18
C = 25 – 25 x 20% = 20

$\therefore$ **Purchase Price Per Unit**

A = 2,000 x 16 = 32,000
B = 4,000 x 18 = 72,000
C = 4,800 x 20 = 96,000

2. **Opening Stock**
A = 240 x 16 = 3,840
B = 160 x 18 = 2,880
C = 304 x 20 = 6,080

3. **Closing Stock**

Particulars	A	B	C
Opening Stock (Units)	240	160	304
Add: Purchase (Units)	2,000	4,000	4,800
	2,240	4,160	5,104
Less: Sales (Units)	2,040	3,840	4,992
Closing Stock	**200**	**220**	**112**
Value of Closing Stock	200 x 16 = 3,200	220 x 18 = 3,960	112 x 20 = 2,240

4. Sales:

A:	2,040 x ₹20	=	40,800
B:	3,840 x ₹22.50	=	86,400
C:	4,992 x ₹25	=	1,24,800

7. (a) BISLA Life Insurance Company furnishes you the following information:

Life Insurance fund on 31.03.2012	**1,40,00,000**
Net Liability on 31.03.2012 as per Actuarial Valuation	**1,20,00,000**
Interim Bonus paid to Policy holders during Intervaluation Period	**2,50,000**

You are required to prepare:
(a) Valuation Balance Sheet
(b) Statement of Net Profit for the Valuation Period. **3**

(b) Following are the ratios relating to the trading activities of Chinu Ltd.:

Gross Profit Ratio	**30%**
Debtors/Receivables Turnover Ratio	**5 times**
Creditors Turnover Ratio	**4 times**
Stock Turnover Ratio	**5 times**

Gross Profit for the year ended 31st March, 2013 amounted to ₹ 8,40,000. Opening debtors of the year were ₹ 64,000 above the closing debtors. Closing Stock of the year was 125% of the Opening Stock. Opening Creditors were 20% of the purchases for the year.

You are required to find out the: (i) Sales; (ii) Purchases (equal to cost of goods sold); (iii) Opening and Closing Debtors. (iv) Opening and Closing Creditors; (v) Opening and Closing Stocks. 8

(c) Esteem Ltd. made the following issue of debentures in May 2012:

(i) 2000, 11% debenture of ₹ 100 each was issued to a creditor who supplied a machine for ₹ 1,80,000.

(ii) 3000, 11% debentures of ₹ 100 each at a premium of 5%.

(iii) 1000, 11% debentures of ₹ 100 each to the Bankers as collateral security for a loan of ₹ 70,000.

Pass journal entries to record the above transactions in the Books of Esteem Ltd. 4

Answer:

7. (a) (i)

BISLA LIFE INSURANCE CO.
Valuation Balance Sheet as on 31.03.2012

Particulars	₹	Particulars	₹
To Net Liability as per Actuarial valuation	1,20,00,000	By Life Insurance Fund	1,40,00,000
To Surplus	20,00,000		
	1,40,00,000		1,40,00,000

Statement Showing Net Profit for the valuation period

Particulars	₹
Surplus as per Valuation Balance Sheet	20,00,000
Add: Interim Bonus Paid	2,50,000
Net Profit	**22,50,000**

(b) (i) Sales: G.P. Ratio = $\frac{GP}{Sales}$ x 100 or $\frac{840000}{Sales}$ x 100 = 30%

Or, Sales = $\frac{840000}{0.30}$ = ₹ 28,00,000

(ii) Purchases or Cost of Goods Sold = Sales – G.P. = ₹ 28,00,000 – 8,40,000 = ₹ 19,60,000

(iii) Debtors : Avg. Debtors = $\frac{\text{Sales}}{\text{Debtors Turnover}} = \frac{28,00,000}{5}$ = ₹ 5,60,000

Let the closing debtors is X, then opening debtors = X + 64,000

Ave. Debtors = $\frac{X + 64000 + x}{2}$ or X + 32000 = 5,60,000

Or, Closing debtors (X) = 5,28,000

Opening Debtors = X+64000 = 5,28,000 + 64,000

= ₹ 5,92,000

(iv) Creditors = Avg. Creditors = $\dfrac{\text{Purchases}}{\text{CreditorsTurnover}} = \dfrac{19{,}60{,}000}{4}$ = ₹ 4,90,000

Opening Creditors = 20% of Purchase = ₹ 3,92,000

Closing Creditors = Avg. X 2 – Opening = 4,90,000 x 2 – 3,92,000 = ₹ 5,88,000.

(v) Stock : Avg. Stock = COGS/Stock Turnover = 19,60,000/5 = ₹ 3,92,000

Let the opening stock = X and Closing = X x 125% = 1.25X

Avg. Stock = $\dfrac{x + 1.25X}{2}$ = 3,92,000 or opening stock (X) = ₹ 3,48,444

Closing Stock (1.25X) = ₹ 4,35,556.

(c)

In the books of Esteem Ltd.
Journal Entries

Particulars	Dr. ₹	Cr. ₹
Machine Vendor Account Dr. Discount on issue of debentures Account Dr. To 11% Debentures Account (Being issue of 2000 Debentures of ₹ 100 each at discount @ 10% to settle the machine vendor)	1,80,000 20,000	 2,00,000
Bank Account To 11% Debentures Account To Securities premium Account (Being issue of 3000 debentures of ₹ 100 each at premium of 5%)	3,15,000	 3,00,000 15,000
Debentures Suspense Account To 11% Debenture Account (Being issue of 1000 debentures of ₹ 100 each issued as collateral security to banker) OR Alternatively, issue of debentures as collateral security may be done without passing any journal entry. In such case, a note has to be written along with the secured loan, mentioning the existence of the debentures.	1,00,000	 1,00,000

8. Write Short Notes on (any three): **5x3=15**

(a) Over/Under subscription;
(b) Rebate on Bills Discounted;
(c) Commission on Reinsurance ceded/accepted;
(d) Segment Reporting (AS 17);
(e) Guaranteed Partnership.

Answer:

8. (a) Over/Under Subscription:

Where the total number of shares for which are received is less than the number of shares issued, it is a case of under subscription.

If the actual applications received are more than the shares offered to the public it is case of over subscription.

In the case of under subscription as the applications received are less than those required for minimum subscription, the company cannot processed with the allotment. The entire application money has to be refunded.
If the subscription for shares are more than what is offered to the public the Board of Directors may make allotment in full to required number of applicants and reject the other applications.
Alternatively, they may allot shares proportionately to the applications received to all applicants which is known as pro-rata allotment.
It is possible that they may resort to selective partial allotment by which the pro-rata allotment may be different for various ranges of share applications received.

(b) Rebate on Bills Discounted:

At the time of discounting the bill total among of discount (difference between face value and discounted amount) is credited to interest and discounted by a bank. Discount represents the interest on bill value for the unexpired period of the bill. It may sometime happen that on the closing day of the accounting year, the bill in question has not matured. At the time of preparing final accounts, the interest relating to next accounting period must be carried forward by passing the following entry:

Interest and Discount A/c. Dr.
To Rebate on Bills Discounted Account.

(c) Commission on Re-insurance:

When insurance company gets re-insurance business it has to pay commission to some other companies. This commission is called "Commission on Reinsurance accepted" and is shown as an expenses in the revenue account. When an insurance company passed on a part of business to some other companies then the company (which gives business) gets commission from the company to whom such business is given. This commission is called "Commission on reinsurance Ceded" and is an income to the company surrendering the business. It appears as an income in the Revenue account.

(d) Segment Reporting (AS-17)

This standard applies to Companies which have an annual turnover of ₹ 50 Crores or more. This standard required that the accounting information should be reported on segment basis. The segment may be based on products, services, geographical area etc. it helps the user of financial statements to understand the performance of the Enterprise segment – wise.

An Enterprise deals in multiple products or services and operates in different geographical areas. Multiple products or services and its operations in different geographical areas are exposed to different risks and returns. Information about multiple products or services and its operation in different geographical areas is called Segment Information. Such information is used to assess the risk and return of multiple products or services and its operation in different geographical areas. Disclosure of such information is called Segment Reporting.
Segment reporting helps users of financial statements in achieving the following objectives:

a) To Better understand the performance of the Enterprise.
b) To Better assess the risks and returns of the Enterprise.
c) To make more informed judgements about the Enterprise as a whole.

(e) In a partnership, there may be special agreement by virtue of which partner may get the guarantee of earning a minimum amount of profit. The guarantee may be given by one partner in particular or by the firm. It is given generally to encourage a junior partner or any sincere clerk of the business inducted to the benefits of partnership.

Guarantee given by the partner:

I. The appropriation of profit should be made in the general course by applying the existing profit sharing ratio.
II. The minimum amount guaranteed is to be decided.
III. In case the guaranteed amount (ii) is more, the excess should be deducted from the share of profit of the partner giving guarantee and calculated under (i) above.
The same amount should be added with the original share of profit of the partner to whom the guarantee has been given.