INTERMEDIATE EXAMINATION
GROUP I
(SYLLABUS 2012)

SUGGESTED ANSWERS TO QUESTIONS
JUNE 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 question 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: **1×5=10**

(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.]:

(i) As per AS-1, which of the following is not a Fundamental Accounting Assumptions?
- **(A) Conservatism**
- **(B) Going Concern**
- **(C) Consistency**
- **(D) Accrual**

(ii) Name the book in which, entries are recorded on the basis of debit notes issued.
- **(A) Sales Book**
- **(B) Purchase Book**
- **(C) Sales Return Book**
- **(D) Purchase Return Book**

(iii) Name the principle involved in the classification of Assets as Fixed and Current.
- **(A) Cost Principle**
- **(B) Going Concern Principle**
- **(C) Matching Principle**
- **(D) Prudence Principle**

(iv) If a fixed amount is withdrawn on the first day of every month of calendar year by a partner in partnership firm, then for what period the interest on the total amount of drawings will be calculated?
- **(A) 4.5 months**
- **(B) 5.5 months**
- **(C) 6.5 months**
- **(D) 7.5 months**

(v) Del credere commission is allowed to consignee
- **(A) for making cash sales.**
- **(B) For making credit sales.**
- **(C) for making extra sales.**
- **(D) for undertaking risk of bad debts.**

Answer: 1 (a)

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

(b) Match the following: **1×5=5**

	Column A		Column B
1.	**Events occurring after the Balance Sheet Date**	**(A)**	**AS-6**
2.	**Prior Period Items**	**(B)**	**AS-9**
3.	**Depreciation Accounting**	**(C)**	**AS-16**
4.	**Timing of recognition of sales of goods**	**(D)**	**AS-5**
5.	**Capitalization of Borrowing Cost**	**(E)**	**AS-4**

Answer: 1 (b)

	Column A		Column B
1.	Events occurring after the Balance Sheet Date	(E)	AS-4
2.	Prior Period Items	(D)	AS-5
3.	Depreciation Accounting	(A)	AS-6
4.	Timing of recognition of sales of goods	(B)	AS-9
5.	Capitalization of Borrowing Cost	(C)	AS-16

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

(i) As per full disclosure principle, the financial statements should disclose all irrelevant information.
(ii) Realisation account is a real account.
(iii) Trade discount is recorded in the books of original entry.
(iv) Abnormal wastages should be included in the cost of inventories as per AS-2.
(v) In absence of partnership deed, partners are entitled to interest on capital @ 6% p.a.

Answer: 1 (c)

(i) False
(ii) False
(iii) False
(iv) False
(v) False

(d) Answer the following: **2×5=10**

(i) The Cost of Inventory of Rajasthali Ltd. as per physical verification as on 24th March, 2016 was ₹4,00,000. Goods are sold at a profit of 25% on cost. On 27th March, goods of the sale value of ₹ 1,00,000 were sent on sale on return basis to a customer, the period of approval being two weeks. He returned 20% of the goods and approved 80% of the remaining on 31st March. Calculate the Cost of Inventory as per Books.

(ii) From the following calculate subscription Income of Pitam Pura Club for the year

2016:
Subscription outstanding as on 31.12.2015: ₹ 9,500 (including ₹500 for 2014)
Subscription received in advance as on 31.12.2015: ₹ 3,000 (including ₹ 200 for 2017)
Subscription received during 2016: for 2014 ₹ 400, for 2015 ₹ 8,900, for 2016 ₹ 1,34,400, for 2017 ₹ 4,000, for 2018 ₹ 1,200.
Subscription outstanding as on 31.12.2016: ₹ 6,950
Subscription of 2014 written off during 2016: ₹ 50

(iii) X purchased a machine from Y on hire purchase basis on the following terms:
(a) Cash price— ₹ 10,00,000 (b) Cash Down Payment—20% (c) Four annual equal instalments of ₹ 2,50,000 each to be paid at the end of each year. Compute the payment of interest pertaining to each accounting year assuming that the sales were made at the beginning of the year.

(iv) An amount of ₹9,90,000 was incurred on a contract work upto 31.03.2016. Certificates have been received to date to the value of ₹ 12,00,000 against which ₹ 10,80,000 has been received in cash. The cost of work done but not certified amounted to ₹ 22,500. It is estimated that by spending an additional amount of ₹ 1,10,000 (including provision for contingencies) the work can be completed in all respects in another two months. The agreed contract price of work is ₹ 13,00,000. Compute a conservative estimate of the profit to be taken to the Profit and Loss Account as per AS-7.

(v) On 31st March, 2015, IDFC Bank Ltd. has a balance of ₹ 9 crores in 'rebate on bills discounted' account. During the year ended 31st March, 2016, IDFC Bank Ltd. discounted bills of exchange of ₹ 4,000 crores charging interest at 18% per annum, the average period of discount being for 73 days. Of these, bills of exchange of ₹ 600 crores were due for realisation from the acceptors/customers after 31st March, 2016, the average period outstanding after 31st March, 2016 being 36.5 days. Prepare Interest and Discount on Bills A/c.

Answer: 1 (d)

(i) 4,00,000 – 80% [(80% of 1,00,000) – 20% 80,000] = ₹3,48,800

(ii)

Subscription Account

Dr. **Cr.**

Particulars	**₹**	**Particulars**	**₹**
To O/s A/c (beg)	9,500	By Advance subscription A/c (Beg)	3,000
To Income & Exp. A/c (b.f)	1,44,000	By Bank A/c	1,48,900
To Advance Subscription	5,400	By Income & Exp. A/c	50
		ByOutstanding Subscription A/c	6,950
	1,58,900		1,58,900

(iii) Step 1: Hire Purchase Price = Down Payment + Instalments
= ₹ 2,00,000 + ₹ 10,00,000 = ₹ 12,00,000
Step 2: Total Interest = H.P. Price - Cash Price
= ₹ 12.00,000 - ₹ 10.00,000 - ₹ 2.00.000

Step 3:

Calculation of Ratio of Hire Purchase Price Outstanding in the Beginning of each year

A	B	C	D = B - C
Year	Outstanding H. P. P. in the beginning of each year	Instalment paid	Outstanding H. P. P. at the end of each year
I	10,00,000	2,50,000	7,50,000
II	7,50,000	2,50,000	5,00,000
III	5,00,000	2,50,000	2,50,000
IV	2,50,000	2,50,000	NIL

Ratio of outstanding H. P. P, at the beginning of each year = 100: 75 : 50 : 25 or 4 : 3 : 2 : 1

Step 4: Calculation of Interest for each year

Interest for 1st year — ₹ 2,00,000 × 4/10 = ₹ 80,000
Interest for 2nd year — ₹ 2,00,000 × 3/10= ₹ 60,000
Interest lor 3rd year — ₹ 2,00,000 × 2,10 = ₹ 40,000
Interest for 4th year — ₹ 2,00,000 × 1/10 = ₹ 20,000

(iv) Computation

Expenditure incurred upto 31.3.2016	9,90,000
Estimated additional expenses (including provision for contingency)	1,10,000
A. Total Estimated Cost	11,00,000
B. Contract Price (B)	13,00,000
C. Total estimated Profit [(A - B)]	2,00,000
D. Percentage of Completion (9,90,000 /11,00,000) × 100	90%
Computation of estimate of the profit to be taken to Profit and Loss Account: = Total Estimated Profit x Expenditure incurred upto 31.3.2016/ Total Estimated Cost = 2,00,000 × 9,90,000/11,00,000 = 1,80,000	

(v)

Discount on Bills Account

Dr. **Cr.**

Date	Particular	₹	Date	Particular	₹
31/03/16	To Rebate on bills discounted A/c [600 × 18/100 × 36.5/365]	10.80	01/04/15	By Rebate on bills discounted A/c	9.00
31/03/16	To Profit and loss A/c	142.20	2015-16	By Bills purchased and discounted A/c [400 × 18/100 × 73/365]	144.00
		153.00			153.00

Section – B
(75 Marks)

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

2. (a) (i) What are the characteristics of a Balance Sheet?

(ii) How does 'subjectivity' become a limitation of Financial Statement Analysis?

(iii) Fine Garments Ltd. is engaged in the export of readymade garments. The company purchased a machinery of ₹10,00,000 for the use in packaging of such garments. State giving reason whether the cash flow due to the purchase of machinery will be cash flow from operating activities, investing activities or financing activities. **3+2+2 =7**

(b) (i) X Ltd. has a current ratio of 3.5 : 1 and quick ratio of 2 : 1. If excess of current assets over quick assets represented by Inventory is ₹24,000, calculate current assets and current liabilities.

(ii) From the following information, calculate Inventory Turnover Ratio:
Revenue from Operations: ₹4,00,000, Average Inventory: ₹55,000. The rate of Gross Loss on Revenue from Operations was 10%. **2+2=4**

(c) What are the issues with which Accounting Standards deal? **4**

Answer: 2 (a)

(I) The characteristics of a balance Sheet are:

(i) It is a statement and not an account. It has no debit or credit side, the headings of the two sides are "Assets and Liabilities".

(ii) It is prepared on a particulars date and not for a particular period.

(iii) It is a summary of the Personal and Real Accounts which are still open and have not been closed by transfer to the Trading and profit & Loss Account. "

(II) Subjectivity means using personal judgment in making a choice out of alternatives available, i.e., choice in the method of depreciation" or choice in the method of inventory valuation. Since the subjectivity is inherent in personal judgment, the financial statements are not free from bias.

(III) Investing Activity. Because Fine Garments Ltd. has purchased the machinery for use in the business not for sale.

Answer: 2 (b)

(I) Current ratio is 3.5 and quick ratio is 2. Difference between current ratio and quick ratio is inventory. Therefore, inventory is 3.5 – 2 = 1.5

If Inventory is 1.5, Current Assets = 3.5

If Inventory is 1, Current Assets = 3.5/1.5

If Inventory is 24,000, Current Assets = (3.5/1.5) ×24,000 = ₹56,000

As Current ratio is 3.5 : 1 and current assets are ₹56,000

∴ Current Liabilities = 56,000/3.5 = ₹16,000

(II) Revenue from Operations = ₹4,00,000

Gross Loss = 10% of ₹4,00,000 = ₹40,000

Cost of Revenue from Operations = Revenue from operation + Gross Loss

= ₹4,00,000 + ₹40,000 = ₹4,40,000

Inventory Turnover Ratio $= \frac{\text{Cost of Goods Sold}}{\text{Average Inventory}}$

$= \frac{₹4,40,000}{₹55,000}$

= 8 times.

Answer: 2 (c) Accounting Standards deal with the issue of **:**

(i) Recognition of events and transactions in the financial statement;
(ii) Measurement of these transactions and events;
(iii) Presentation of these transactions and events in the financial statements in a manner that is meaningful and understandable to the reader;
(iv) Disclosure requirements which should be here to enable the public at large and the stakeholders and the potential investors in particular, to get an insight into what these financial statements are trying to reflect and thereby facilitate them to take prudent and informed business decisions.

3. The following is the Balance Sheet of Chirag as on 31st March, 2015:

Liabilities	₹	Assets	₹
Capital Account	**48,000**	**Building**	**32,500**
Loan	**15,000**	**Furniture**	**5,000**
Creditor	**31,000**	**Motor Car**	**9,000**
		Stock	**20,000**
		Debtors	**17,000**
		Cash in hand	**2,000**
		Cash at bank	**8,500**
	94,000		**94,000**

A riot occurred on the night of 31st March, 2016 in which all books and records were lost. The cashier had absconded with the available cash. He gives you the following information:

(a) His sales for the year ended 31st March, 2016 were 20% higher than the previous year's. He always sells his goods at cost plus 25%; 20% of the total sales for the year ended 31st March, 2016 were for cash. There were no cash purchases.

(b) On 1st April, 2015 the stock level was raised to ₹30,000 and stock was maintained at this new level all throughout the year.

(c) Collection from debtors amounted to ₹1,40,000 of which ₹35,000 was received in cash, Business expenses amounted to ₹20,000 of which ₹5,000 was outstanding on 31st March, 2016 and ₹6,000 was paid by cheques.

(d) Analysis of the Pass Book revealed the Payment to Creditors ₹1,37,500, Personal Drawing ₹7,500, Cash deposited in Bank ₹71,500, and Cash withdrawn from Bank ₹12,000.

(e) Gross profit as per last year's audited accounts was ₹30,000.

(f) Provide depreciation on Building and Furniture at 5% and Motor Car at 20%.

(g) The amount defalcated by the cashier may be treated as recoverable from him.

You are required to prepare the Trading and Profit & Loss Account for the year ended 31st March, 2016 and Balance Sheet as on the date. 15

Answer: 3

Trading and Profit and Loss account
For the year ending on 31st march, 2016

Dr. **Cr.**

Particulars	₹	₹	Particulars	₹
To Opening Stock To Purchases (bal.fig.); To Gross Profit c/d (@20% on sales)		20,000 1,54,000 36,000	By Sales By Closing Stock	1,80,000 30,000
		2,10,000		2,10,000
To Sundry Business Expenses To Depreciation on Building Furniture Motor To Net profit transferred to capital A/c	 1,625 250 1,800	20,000 3,675 12,325	By Gross Profit b/d	36,000
		36,000		36,000

Balance Sheet as at 31st March 2016

Particulars	₹	₹	Particulars	₹	₹
Capital Account: Opening Balance Add: Net profit Less: Drawings Loan Sundry Creditors Outstanding Expenses	 48,000 12,325 60,325 (7,500)	 52,825 15,000 47,500 5,000	Building Less: Depreciation Furniture Less: Depreciation Motor Car Less: Depreciation - Stock in trade Sundry Debtors Cash at Bank Sundry Advances (Amount recoverable from Cashier)	32,500 (1,625) 5,000 (250) 9,000 (1,800)	 30,875 4,750 7,200 30,000 21,000 22,000 4,500
		1,20,325			1,20,325

Working Notes:

Total Debtors Account

(i) **Dr.** **Cr.**

Particulars	₹	Particulars	₹
To Balance b/d	17,000	By Bank (₹1,40,000 – ₹35,000)	1,05,000
To Sales (80% of ₹1,80,000)	1,44,000	By Cash A/c	35,000
		By Balance c/d	21,000
	1,61,000		1,61,000

(ii) **Total Creditors Account**

Dr. **Cr.**

Particulars	₹	Particulars	₹
To Bank	1,37,500	By Balance b/d	31,000
To balance c/d	47,500	By Purchase	1,54,000
	1,85,000		1,85,000

(iv) **Cash Book**

Dr. **Cr.**

Particulars	Cash ₹	Bank ₹	Particulars	Cash ₹	Bank ₹
To Balance b/d	2,000	8,500	By Business Expenses	9,000	6,000
To Sales	36,000	--------	By Drawings	---------	7,500
To Sundry Debtors	35,000	1,05,000	By Sundry Creditors	_____	1,37,500
To Cash (Contra)	-------	71,500	By Bank (Contra)	71,500	_____
To Bank (Contra)	12,000	_____	By Cash (Contra)	--------	12,000
			By Defalcation (Bal fig.) By Balance c/d	4,500	------
			(Bal fig.)	-------	22,000
	85,000	1,85,000		85,000	1,85.000

(iv) Last year's Total Sales = Gross Profit × 100/20 = 30,000 × 100/20 = ₹ 1,50,000

(v) Current year's Total Sales = ₹ 1,50,000+ 20% of ₹1,50,000 = ₹ 1,80,000

(vi) Current year's Credit Sales = ₹ 1,80,000 × 80% = ₹ 1,44,000

(vii) Cost of Goods Sold = Sales - G.P. = ₹1,80,000 - ₹36,000 = ₹1,44,000

(viii) Purchases = Cost of Goods Sold + Closing Stock - Opening Stock
= 1,44,000 + ₹ 30,000 - ₹20,000 = ₹ 1,54,000

4. (a) X Limited sold goods worth ₹13 lakh to Mr. Y. Mr. Y asked for a Trade Discount amounting to ₹1,06,000 and the same was agreed to by X Limited. Such discount was allowed in the ordinary course of business. The sale was effected and goods were dispatched. On receipt of goods, Mr. Y has found that goods worth ₹1,34,000 are defective. Mr. Y returned defective goods to X Limited and made payment amount to ₹10,60,000. The Accountant of X Limited booked the sale for ₹10,60,000.

Discuss the contention of the Accountant with reference to relevant Accounting Standard. 4

(b) XYZ Ltd. constructed a fixed asset and incurred the following expenses on its construction:

	₹
Materials	**10,00,000**
Direct Labour (1/6th of the total labour time was chargeable to the construction)	**3,00,000**
Direct Expenses	**2,00,000**
Office & Administrative Expenses (5% is specifically attributable to construction)	**7,50,000**
Depreciation on assets used for the construction of this asset	**10,000**

Calculate the cost of the fixed asset. 3

(c) A fire engulfed the premises of a business of M/s K on the morning of 1st July, 2016. The building, equipment and stock were destroyed and the salvage recorded the following:

Building ₹4,000; Equipment ₹2,500; Stock ₹20,000. The following other information was obtained from the records saved for the period from 1st January to 30th June 2016:

	₹
Sales	**11,10,000**
Purchases	**9,37,500**
Cartage inward	**17,500**
Wages	**7,500**
Stock in hand on 31st December, 2015	**1,50,000**
Building (value on 31st December, 2015)	**3,75,000**
Equipment (value on 31st December, 2015)	**75,000**
Depreciation provision till 31st December, 2015 on:	
Building	**1,25,000**
Equipment	**22,500**

No depreciation has been provided since December 31, 2015. The latest rate of depreciation is 5% p.a. on building and 15% p.a. on equipment by straight line method.

Normally business makes a profit of 25% on sales. You are required to prepare the statement of claim for submission to the Insurance Company. 8

Answer: 4

(a) As per AS 9, "Revenue Recognition" is the inflow or cash, receivable or other consideration arising in the course of ordinary activities of an enterprise from the sale of Goods. However, the above is subject to trade discount and volume rebates received in the course of carrying on business which shall be deducted in ascertaining revenue since they represent' a reduction of cost. Revenue is also subject to certain risks like damages on transfer of goods to the buyers end.

In the given case, trade discount is to be deducted from ₹13,00,000 and gross sale shall be recognized at (₹ 13,00,000 – ₹1,06,000) = ₹11,94,000 and goods returned ₹1,34,000 are to be recorded in the form of sales return.

Thus the contention of the Accountant to book sale of ₹10,60,000 is not correct.

(b) Calculation of Cost of fixed asset

	₹
Materials	10,00,000
Direct labour (1/6th of ₹ 3,00,000)	50,000
Direct expenses	2,00,000
Office and administrative expenses (5% ₹7,50,000)	37,500
Depreciation on assets	10,000
Total Cost of fixed asset	12,97,500

(c) Statement of Claim

Item	Cost ₹	Depreciation ₹	Salvage ₹	Claim ₹
A	B	C	D	(E = B-C-D)
Stock (W. N. 2)	2,80,000		20,000	2,60,000
Buildings	3,75,000	1,25,000 + 9,375	4,000	2,36,625
Equipment	75,000	22,500 + 5,625	2,500	44,375
				5,41,000

Working Notes:

1. Memorandum Trading Account for the period from 01.01.2016 to 30.06.2016

Dr. **Cr.**

Particulars	₹	Particulars	₹
To Opening Stock (01.01.2016)	1,50,000	By Sales	11,10,000
To Purchases	9,37,500		
To Cartage Inwards	17,500	By Closing Stock (bal. Fig)	2,80,000
To Wages	7,500		
To Gross Profit (25% of ₹11,10,000)	2,77,500		
	13,90,000		13,90,000

2. Stock Destroyed Account

Dr. **Cr.**

Particulars	₹	Particulars	₹
To Tarading Account	2,80,000	By Stock Salvaged Account	20,000
		By Balance c/d (For Claim)	2,60,000
	2,80,000		2,80,000

5. The following was the Balance Sheet of 'Kamal' and 'Rani', who were sharing profits and losses in the ratio of 2:1 on 31.12.2016:

Liabilities	₹	Assets	₹
Capital Accounts		**Plant and Machinery**	**24,00,000**
Kamal	**20,00,000**	**Building**	**18,00,000**
Rani	**10,00,000**	**Sundry Debtors**	**6,00,000**
Reserves	**18,00,000**	**Stock**	**8,00,000**
Sundry Creditors	**8,00,000**	**Cash**	**2,00,000**
Bills Payable	**2,00,000**		
	58,00,000		**58,00,000**

They agreed to admit 'Nisha' into the partnership on the following terms:

(i) The Goodwill of the firm was fixed at ₹2,10,000.

(ii) That the value of Stock and Plant & Machinery were to be reduced by 10%.

(iii) That a provision of 5% was to be created for Doubtful Debts.

(iv) That the Building Account was to be appreciated by 20%.

(v) There was an unrecorded liability of ₹20,000.

(vi) Investments worth ₹40,000 (Not mentioned in the Balance Sheet) were taken into account.

(vii) That the value of Reserve, the values of Liabilities and the values of Assets other than Cash are not to be altered.

(viii) 'Nisha' was to be given one-fourth share in the profit and was to bring capital equal to his share of profit after all adjustments.

Prepare Memorandum Revaluation Account, Capital Account of the partners and the Balance Sheet of the newly reconstituted firm. **15**

Answer: 5

Memorandum revaluation Account

Dr. **Cr.**

Particulars	₹	Particulars	₹
To Stock	80,000	Building	3,60,000
To Plant & machinery	2,40,000	Investments	40,000
To Provision for doubtful debts	30,000		
To Unrecorded liability	20,000		
To Profit transferred to Partners' Capital A/cs (in old ratio) Kamal = 20,000 Rani = 10,000	30,000		
	4,00,000		4,00,000
To Building	3,60,000	By Stock	80,000
To Investments	40,000	By Plant & machinery	2,40,000
		By Provision for doubtful debts	30,000
		By Unrecorded liability	20,000
		By Loss transferred to Partners' Capital A/cs (in new ratio) Kamal = 15,000 Rani = 7,500 Nisha = 7,500	30,000
	4,00,000		4,00,000

Partners' capital Accounts

Dr. **Cr.**

	Kamal	Rani	Nisha		Kamal	Rani	Nisha
To Memorandum Revaluation	15,000	7,500	7,500	By Balance b/d	20,00,000	10,00,000	------
				By Reserve	12,00,000	6,00,000	------
To Reserve Fund	9,00,000	4,50,000	4,50,000	By Nisha (W.N.3)	35,000	17,500	------
To Kamal (W.N.3)	------	-----	35,000	By Memorandum Revaluation A/c	20,000	10,000	
To Rani (W.N.3)	------	-----	17,500				
To Balance c/d (Refer W.N.2)	23,40,000	11,70,000	11,70,000	By Cash (Bal. Fig.)			16,80,000
	32,55,000	16,27,500	16,80,000		32,55,000	16,27,500	16,80,000

Balance Sheet of newly reconstitute firm as on 31.12.2016

Liabilities	₹	Assets	₹
Capital Accounts		Plant & Machinery	24,00,000
Kamal	23,40,000	Building	18,00,000
Rani	11,70,000	Sundry Debtors	6,00,000
Nisha	11,70,000	Stock	8,00,000
Reserve Fund	18,00,000	Cash (2,00,000 + 16,80,000)	18,80,000
Sundry Creditors	8,00,000		
Bills Payable	2,00,000		
	74,80,000		74,80,000

Working Notes:

1. Calculation of new profit and loss sharing ratio
   Nisha will get 1/4th share in the new profit sharing ratio.
   Therefore, remaining share will be 1-1/4 = 3/4

Share of Kamal will be 3/4 × 2/3 = 2/4 i.e. 1/2
Share of Rani will be 3/4 × 1/3 = 1/4
New ratio will be
Kamal: Rani: Nisha
1/2 : 1/4 ; 1/4
2:1:1

2. Calculation of closing capital of Nisha
   Closing capitals of Kamal & Rani after all adjustments are:
   Kamal = ₹23,40,000
   Rani = ₹ 11,70,000
   Since Rani's capital is less than Kamal's capital, therefore Rani's capital is taken as base. Hence, Nisha's closing capital should be ₹11,70,000 (46,80,000 × 1/4) i.e. at par with Rani (as per new profit and loss sharing ratio)
3. Adjustment entry for goodwill

Partners	Goodwill as per old ratio	Goodwill as per new ratio	Effect	
Kamal	1,40,000	1,05,000	+35,000	-
Rani	70,000	52,500	+17,500	-
Nisha	-	52,500	-	52,500
	2,10,000	2,10,000	52,500	52,500

Adjustment entry will be:

Nisha's Capital A/'c	Dr.	52,500	
To Kamal's Capital A/c			35,000
To Rani's capital A/c			17,500

6. (a) From the following transactions in the books of Mr. Perfect, prepare an Account Current, by means of product to be sent by him to Mr. Smart for the quarter ending 31st March, 2016. Interest is to be charged and/or allowed @ 12% p.a.

2016		**₹**
January 1	**Balance in Smart's Account (Credit)**	**3,500**
January 12	**Sold goods to Smart (due 1st February)**	**30,000**
January 31	**Sold goods to Smart (due 15th February)**	**27,500**
February 15	**Cash received**	**40,000**
February 20	**Cash received**	**7,500**
March 10	**Goods returned by Smart**	**7,000**
March 25	**Cash received**	**6,500**

10

(b) Following are the details of interest on advance of Patta Commercial Bank as on 31st March, 2017:

(₹ in crore)

Particulars	**Interest Earned**	**Interest Received**
	₹	**₹**
Performing Assets:		
Terms Loan	**480**	**360**
Cash Credit and Overdraft	**2,500**	**2,010**
Bills Purchased and Discounted	**300**	**300**
Non-Performing Assets:		
Term Loan	**250**	**50**
Cash Credit and Overdraft	**800**	**60**
Bill Purchased and Discounted	**200**	**40**

Find out the income to be recognized for the year ended 31st March, 2017. 5

Answer: 6 (a)

In the books of Mr. Perfact
Mr. Smart in Account Current with Mr. perfact
(Interest to 31st march, 2016 @ 12% p. a.)
(By means of product)

Dr. **Cr.**

Date 2016	Particular	Due date	Amount ₹	Days	Product	Date 2016	Particulars	Due date	Amount ₹	Days	Product
Jan 12	To Sales A/c	Feb.1	30,000	59	17,70,000	Jan.1	By Balance b/d	Jan. 1	3,500	91	3,18,500
Jan 31	To Sales A/c	Feb.15	27,500	45	12,37,500	Feb.15	By cash A/c	Feb.15	40,000	45	18,00,000
Mar. 31	To Interest $\frac{4,03,000}{366} \times \frac{12}{100}$		132			Feb.20	By cash A/c	Feb.20	7,500	40	3,00,000
Mar.31	To Balance c/d		6,868			Mar. 10	By Sales return	Mar. 10	7,000	21	1,47,000
						Mar. 25	By Cash A/c	Mar.25	6,500	6	39,000
						Mar. 31	By Balance of products				4,03,000
			64,500		30,07,500				64,500		30,07,500

Answer: 6 (b)

As per RBI Circular, Interest on non-performing assets are considered on Cash Basis where as interest on performing assets are considered on Accrual Basis.

Statement Showing the Recognition of Income

Particulars	**Amount ₹**	**Amount ₹**
1. Interest on Term Loans		
i. Performing Assets	480	
ii. Non-performing Assets	50	530
2. Interest on Cash Credit and Overdraft		
i. Performing Assets	2,500	
ii. Non-Performing Assets	60	2,560
3. Interest on Bills Purchased and Discounted		
i. Performing Assets	300	
ii. Non-Performing Assets	40	340
Income to be Assets		3,430

7. (a) K. Ltd. has sold its building for ₹50 lakh to B. Ltd. and has also given the possession to B. Ltd. The book value of the building is ₹30 lakh. As on 31st March, 2016, the documentation and legal formalities are pending. The company has not recorded the sale and has shown the amount received as advance. Do you agree with this treatment? 3

(b) Entity Hello has an existing freehold factory property, which it intends to knock down and redevelop. During the redevelopment period the company will move its production facilities to another (temporary) site.
The following incremental costs will be incurred:
Setup costs of ₹5,00,000 to install machinery in the new location.
Rent of ₹15,00,000.
Removal costs of ₹3,00,000 to transport the machinery from the old location to the

temporary location.

You are required to advise can these costs be capitalised into the cost of the new building. **4**

(c) **How will you show the following items in General Ledger Adjustment Account in Debtors Ledger and General Ledger Adjustment Account in Creditors Ledger:**

	₹
Transfer from Debtors Ledger to Creditors Ledger	**2,200**
Bills Receivable endorsed to Creditors	**8,000**
Endorsed Bills dishonoured	**2,000**
Bad Debts written off (after deducting bad debts recovered ₹600)	**4,400**
Provision for Doubtful Debts	**1,100**
Provision for Discount on Debtors	**2,000**
Reserve for Discount on Creditors	**4,000**
Cash Sales	**6,000**
Cash Purchases	**8,000**
Bills Receivable Collected on maturity	**10,000**
Bills Receivable discounted	**12,000**
Bills Payable matured	**14,000**
Discount allowed	**3,000**
Discount received	**1,200**
Allowances from Creditors	**6,400**

8

Answer: 7

(a) The economic reality and substance of the transaction is that the rights and beneficial interest in the property has been transferred although legal title has not been transferred. K Ltd. should record the sale and recognize the profit of ₹20 lakhs in its profit and loss account. The building should be eliminated from the balance sheet.

(b) Constructing or acquiring a new asset may result in incremental costs that would have been avoided if the asset had not been constructed or acquired. These costs are not be included in the cost of the asset if they are not directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.

Conclusion: The costs to be incurred by the company do not meet that requirement of AS 10 and cannot, therefore, be capitalised.

(c) **In Debtors Ledger**

General Ledger Adjustment Account

Dr. **Cr.**

Particulars	**₹**	**Particulars**	**₹**
To Debtors Ledger Adjustment A/c:		To Debtors Ledger Adjustment A/c:	
Discount Allowed	3 000	Endorsed Bills receivable dishonored	2,000
Bad Debts (4,400 + 600)	5,000		
Transfer to creditor ledger	2,200		

In Creditors Ledger
General Ledger Adjustment Account

Dr. **Cr.**

Particulars	₹	Particulars	₹
To Creditors Ledger Adjustment A/c: Endorsed Bills receivable dishonored	2,000	By Creditors Ledger Adjustment A/c: Transfer from debtors Ledger	2,200
		Bill receivable endorsed to creditors	8,000
		Discount received	1,200
		Allowances	6,400

Notes:

(i) The following items do not appear in GLA Account in Debtors Ledger.

1. Cash Sales
2. Provision for Doubtful Debts
3. Provision for Discount on Debtors
4. Bad Debts Recovered
5. Bills Receivable matured/collected on maturity
6. Bills Receivable discounted
7. Bills Receivable endorsed'

(ii) The following items do not appear in GLA Account in Creditors Ledger

1. Cash Purchases
2. Reserve for Discount on Creditors
3. Bills Payable matured

8. (a) The Revenue Account of a life insurance company shows the life assurance fund on 31st March, 2017 of ₹62,21,310 before taking into account the following items:

(i) Claims covered under re-insurance ₹12,000.

(ii) Bonus utilized in reduction of life insurance premium ₹4,500.

(iii) Interest accrued on securities ₹ 8,260.

(iv) Outstanding premium ₹5,410.

(v) Claims intimated but not admitted ₹ 26,500.

What is the life assurance fund after taking into account the above omissions? 7

(b) Compute Working Capital requirement of a company from the following information:

Average collection period	**60 days**	**Sales**	**₹20,00,000**
Average payment period	**75 days**	**Gross profit**	**25% on sale**
Inventory Holding period (on the basis of Cost of Goods Sold)	**90 days**	**Credit Purchase**	**1/3rd of Cost of Goods Sold**
Cash & bank balance	**2.5% of sales**	**1 year**	**360 days**

The company expects 50% Sales increment during the next year. 8

Answer: 8

(a) Statement showing life Assurance Fund

Particulars	Amount (₹)	Amount (₹)	Amount (₹)
Balance of fund as on 31st March,2017			62,21,310
Add:			
Interest on securities		8,260	
Premium outstanding		5,410	13,670
			62,34,980
Less:			
Claims outstanding	26,500		
Covered under re-insurance	12,000	14,500	
Bonus in reduction of premium		4,500	19,000
Balance of life Assurance fund			62,15,980

(b)

1. Computation of cost of Goods Sold

Particulars	(₹)
Sales Add: Expected increment at 50% on sale	20,00,000 10,00,000
Sales for the next year Less: gross profit at 25% on Sale	30,00,000 (7,50,000)
Cost of Goods sold	22,50,000

Credit purchases = 1/3rd of ₹22,50,000 = ₹7,50,000

2. Computation of working capital requirement

Particulars	(₹)
A. Current Assets Debtors = Sales × 60 days ÷ 360 Days = ₹30,00,000 × 60/360 Inventory = Cost of Goods Sold × 90 Days ÷ 360 Days = ₹22,50,000 × 90 days/360 days Cash and bank Balances = 2.5% of Sales = ₹ 30,00,000 × 2.5%	 5,00,000 5,62,500 75,000
Total Current Assets	11,37,500
B. Current Liabilities Creditors = Credit purchases × 75 days ÷ 360 days = ₹7,50,000 × 75 Days ÷ 360 days	 (1, 56,250)
C. Net working capital = (A – B)	9,81,250

9. Write short notes on *any three* of the following:

(a) Areas involving different accounting policies by different enterprises

(b) Accounting treatment for grant received under APDRP (Electricity Companies)

(c) Minimum paid-up capital and reserve (Banking Companies)

(d) Re-insurance and Double Insurance

Answer: 9

(a) Areas involving different accounting policies by different enterprises are:

- Methods of depreciation, depletion and amortization
- Treatment of expenditure during construction
- Treatment of foreign currency conversion/translation.
- Valuation of inventories
- Treatment of intangible assets
- Valuation of investments
- Treatment of retirement benefits
- Recognition of profit on long-term contract
- Valuation of fixed assets
- Treatment of contingent liabilities

(b) Account for grant received under APDRP

(i) Grant received under the Accelerated Power Development and Reforms Programme (APDRP) of the Ministry of Power, Government of India towards capital expenditure is treated as capital receipt and accounted as Capital Reserve and subsequently adjusted as income (by transfer to the Statement of Profit and Loss) in the same proportion as the depreciation written off on the assets acquired out of the Grant.

(ii) The depreciation for the year to be debited to the Statement of Profit and Loss on asset acquired out of grant match against portion of grant transferred fram Capital Reserve.

(iii) The unadjusted balance of capital reserve is disclosed under the head Reserves and Surplus in the Balance Sheet.

(iv) In the Cash Flow Statement grant received under APDRP is reported under Financing Activity.

(v) At any time if the ownership of the assets acquired, out all the grants, vest with the Government. The grants (Capital Reserve) are adjusted in the carrying cost of such assets.

(vi) The grant-in-aid assistance received by the utility under APDRP and its utilisation shown under the head Capital Expenditure made during the year is not considered for calculation of Annul Revenue Requirement (ARR) of the utility for the year.

(c) Minimum paid up capital and reserve [Section – 11]

Banking company	Minimum Aggregate value at paid up capital and reserve
1. In case of a Banking Company incorporated outside India:	
(a) having a place(s) of business in the city of Mumbai or Kolkata or both	₹20 lacs
(b) not having a place (s) of business in the city of Mumbai or Kolkata or both	₹15 lacs
2. In case of a banking company incorporated in India:	
(a) having place of business in more than one State including place(s) business in the city of Mumbai or Kolkata or both	₹10 lcs
(b) having all its places of business in one state and none of which is in the city of Mumbai or Kolkata	₹1 lac + ₹ 10,000 for each of other places ,of business in the district in which it has its principal

	place of business + ₹25,000 for each place of business elsewhere in the state subject of maximum of ₹5 lacs.

(d) Re-Insurance:

Re-insurance means the transfer of a part of risk by the insurer. This is particularly done when the amount of insurance is very high and when it is very difficult to bear the entire risk by a single insurance a part of the risk is to be insured with some other insurance companies.

Double insurance: When the same risk and the same subject matter is insured with more than one insurer i.e. more than one insurance company, the same is called Double insurance.