INTERMEDIATE EXAMINATION
GROUP I
(SYLLABUS 2008)

SUGGESTED ANSWERS TO QUESTIONS
JUNE 2015

Paper-5: FINANCIAL ACCOUNTING

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

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

Question No. 1 is compulsory and answer any five from the rest.

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

(i) Bad debts recovered ₹ 750. It will be
(A) credited to Bad debts A/c
(B) credited to debtor's personal A/c
(C) debited to creditor's personal A/c
(D) credited to bad debts recovered A/c

(ii) Income Statement of a charitable institution is known as
(A) Profit and Loss A/c
(B) Receipts and Payments A/c
(C) Income and Expenditure A/c
(D) Statement of Affairs

(iii) A and B are partners in a firm sharing profits in the ratio of 4:3. They agreed to admit C in the firm for 1/6th share in profit. The new profit sharing ratio of A, B and C will be
(A) 4 : 3 : 1
(B) 3 : 2 : 1
(C) 8 : 2 : 3
(D) 20 : 15 : 7

(iv) AS – 6 is not applicable on
(A) Livestock
(B) Goodwill
(C) Wasting asset
(D) All of the above

(v) Generally gain ratio is concerned with the situation of
(A) Admission of a new partner
(B) Retirement of a partner
(C) Dissolution of firm
(D) Piece mean distribution

(vi) Acid Test Ratio is an example of
(A) Profitability Ratio
(B) Balance Sheet Ratio
(C) Revenue Statement Ratio
(D) Activity Ratio

(b) State whether the following statements are True (T) or False (F): 1×5=5
(i) In absence of partnership deed the Profit or Loss should be distributed among partners in their Capital Ratio.
(ii) Branch account is prepared in the books of Head office under debtors' method of accounting.
(iii) Balance of securities premium account is a source of buy-back of shares.
(iv) No dividend is payable on calls in advance.
(v) Costs incurred in salaries/wages in internally generated software are not included in the cost computation.

(c) Fill in the blanks in the following sentences using appropriate word from the alternatives indicated: 1×5=5
(i) Subscription is a _______________ nature receipt. (capital/revenue)
(ii) Average exchange rate is applicable for ______________ in case of foreign branch. (fixed assets/revenue items)
(iii) Pooling of interest method of accounting is concerned with amalgamation in nature of ___________. (merger/purchase)
(iv) Redemption of ___________ can be made by annual drawings. (preference shares/debentures)
(v) Profit on life business is ascertained by preparation of _________. (revenue A/c / Valuation Balance Sheet).

(d) Match the following in column I with the appropriate item in column II: 1×5=5

Column - I		Column - II	
(i)	Capital Redemption Reserve	(A)	Branch account
(ii)	Earning per share	(B)	Insurance company
(iii)	Realisation account	(C)	Dissolution of a firm
(iv)	Remittance in transit	(D)	Issue of bonus shares
(v)	Reserve for unexpired risk	(E)	Profitability Ratio
		(F)	Banking company
		(G)	No matching statement found

(e) In the following cases, one out of four answers given is correct. Indicate the correct answer (= 1 mark) and give brief workings in support of your answer (=1 mark): 2×2=4

(i) Purchase Cost of machinery ₹7,20,000; Carriage inwards ₹15,000; Transit insurance ₹8,000; Establishment Charges ₹25,000; Workshop Rent ₹25,000; Salvage value ₹50,000 and estimated working life 8 years. On the basis of straight line method the amount of depreciation for third year will be
(A) ₹ 96,000
(B) ₹ 89,750
(C) ₹ 88,750
(D) ₹ 91,875

(ii) Arti Ltd. purchased a machine on hire purchase system for a cash price ₹ 5,00,000 to be paid as ₹ 78,700 cash down and the balance by three equal annual installment of ₹ 2,00,000 each. If interest is charged @ 20% per annum then amount of interest payable in second installment will be

(A) ₹ 1,00,000
(B) ₹ 61,112
(C) ₹ 33,328
(D) ₹ 84,260

Answer:

1. (a) (i) (D) : Credited to bad debts recovered Account.
(ii) (C) : Income and Expenditure Account.
(iii) (D) : 20 : 15 : 7.
(iv) (D) : All the above.
(v) (B) : Retirement of a partner.
(vi) (B) : Balance Sheet Ratio.

(b) (i) False.
(ii) True.
(iii) True.
(iv) True.
(v) True.

(c) (i) Revenue.
(ii) Revenue items.
(iii) Merger.
(iv) Debentures.
(v) Valuation Balance Sheet.

(d) (i) (D) Issue of bonus shares.
(ii) (E) Profitability Ratios.
(iii) (C) Dissolution of a firm.
(iv) (A) Branch accounts.
(v) (B) Insurance company.

(e) (i) (B) ₹ 89,750; (7,20,000 + 15,000 + 8,000 + 25,000 – 50,000)/8 = ₹ 89,750.
(ii) (B)

Particulars	₹
Cash Price	5,00,000
Less: Cash down payment	78,700
	4,21,300
(Interest payable on 1st installment 4,21,300 × 20% = ₹ 84,260)	
Less: Principal amount payable at 1st Installment (2,00,000 – 84,260)	1,15,740
Balance	3,05,560
Interest payable on 2nd installment (3,05,560 × 20%)	61,112

2. (a) X, Y and Z are in partnership sharing Profits and Losses in the ratio 2 : 2 : 1. Partnership deed provides that all the partners are entitled to interest @ 9% per annum on fixed capital of ₹ 10,00,000 contributed in profit sharing ratio. Z is entitled for 10% commission of net profit after such commission, for special performance.
On 1/9/2014, it was decided to retire X on health grounds and admit A, the son of X as partner with 1/5th share in Profit and Loss. Other decisions taken on this date were as follows:
(i) Firm's fixed capital to be raised to ₹ 15,00,000 and partners to maintain fixed capital in profit sharing ratio and, interest on capital shall be paid @ 10% per annum from 1/9/2014.
(ii) No commission to be paid to Z from 1/9/2014.
(iii) Goodwill is assessed at ₹ 3,00,000.
(iv) X was paid ₹ 2,50,000 in cash on retirement.

(v) Balance claim payable to X was to be credited to A's fixed capital account and current account.
(vi) Profit for the accounting year 2014-15 before interest on capital, Z's commission was ₹ 9,00,000.

You are required to prepare:
(i) Profit and Loss Appropriation Account of the firm for the year ended 31st March, 2015.
(ii) Partners Current Accounts. [4+5]

(b) Chandra Limited has made plans for the next year 2015-16. It is estimated that the company will employ total assets of ₹ 90,00,000; 30% of assets being financed by debt at an interest cost of 10% p.a. The direct costs for the year are estimated at ₹ 50,00,000 and all other operating expenses are estimated at ₹ 7,50,000. The sales revenue are estimated at ₹ 85,00,000. Tax rate is assumed to be 30%.

Required to calculate:
(i) Net profit margin;
(ii) Return on Assets;
(iii) Asset turnover; and
(iv) Return on Equity. [6]

Answer:

2. (a)

Profit & Loss Appropriation Account
for the year ending 31st March, 2015

Dr. Cr.

Particulars	For the period 1.4.14 to 31.8.14	For the period 1.9.14 to 31.3.15		For the period 1.4.14 to 31.8.14	For the period 1.9.14 to 31.3.15
	₹	₹		₹	₹
To Interest on Capital	37,500	87,500	By Net Profit	3,75,000	5,25,000
To Z's Commission	30,682		(Before interest &		
To Tran. to Current A/c			Commission)		
X	1,22,727	---			
Y	1,22,727	2,33,333			
Z	61,364	1,16,667			
A	---	87,500			
	3,75,000	**5,25,000**		**3,75,000**	**5,25,000**

Dr Partners' Current Account Cr.

Particulars	X	Y	Z	A	Particulars	X	Y	Z	A
	₹	₹	₹	₹		₹	₹	₹	₹
From 1.4.14 to 31.8.14					By X's Capital (transfer)	4,00,000	---	---	---
To X's Capital	---	80,000	40,000	---	By Interest on Capital	15,000	15,000	7,500	---
To Bank	2,50,000	---	---	---	By Commission	---	---	30,682	---
To A's Capital	3,00,000	---	---	---	By Y's Capital	80,000	---	---	---
To A's Current	1,07,727	---	---	---	By Z's Capital	40,000	---	---	---
To Balance c/d	---	57,727	59,546	---	By P/L Appropriate A/c	1,22,727	1,22,727	61,364	---
	6,57,727	**1,37,727**	**99,546**	**---**		**6,57,727**	**1,37,727**	**99,546**	**---**
From 1.9.14 to 31.3.15									

To Y's Capital	---	---	---	40,000	By Balance b/d	---	57,727	59,546	---
To Z's Capital	---	---	---	20,000	By X's Current A/c	---	---	---	1,07,727
To Balance c/d	---	3,77,727	2,19,546	1,52,727	By A's Capital A/c	---	40,000	20,000	---
					By Interest on Capital	---	46,667	23,333	17,500
					By P/L Appropriate A/c	---	2,33,333	1,16,667	87,500
	---	**3,77,727**	**2,19,546**	**2,12,727**		**---**	**3,77,727**	**2,19,546**	**2,12,727**

Working Notes:

(i) New Profit Sharing Ratio:

A's share = 1/5
Y's share = 1 – 1/5 = 4/5 × 2/3 = 8/15
Z's share = 4/5 × 1/3 = 4/15
Hence, New Sharing Ratio of Y, Z & A is 8 : 4 : 3

(ii) Adjustment of Goodwill:

At the time of retirement of X

Particulars	X (₹)	Y (₹)	Z (₹)
Goodwill as per old ratio 2 : 2 : 1	1,20,000	1,20,000	60,000
Less: Goodwill in Y & Z 2 : 1	---	2,00,000	1,00,000
Net	1,20,000 (Cr.)	80,000 (Dr.)	40,000 (Dr.)

At the time of admission of A	Y	Z	A
Goodwill in 2 : 1	2,00,000	1,00,000	---
Less: Goodwill in new ratio (8:4:3)	1,60,000	80,000	60,000
Net	40,000 (Cr.)	20,000 (Cr.)	60,000 (Dr.)

(iii) Interest on Partner's Capital

For 1.4.14 to 31.8.14 on fixed capital of X, Y & Y (2 : 2 : 1)
X – 10,00,000 × 2/5 = 4,00,000 × 9/100 × 5/12 = ₹ 15,000
Y – 4,00,000 × 9/100 × 5/12 = ₹ 15,000
Z – 10,00,000 × 1/5 = 2,00,000 × 9/100 × 5/12 = ₹ 7,500
Total Interest for first 5 months = [15,000 +15,000 +7,500] = 37,500
For 1.9.14 to 31.3.15 on Fixed Capital of Y = 15,00,000 × 3/15 = 3,00,000
Interest on Y's Capital = 8,00,000 × 10/100 × 7/12 = ₹ 46,667
Z's Capital = 4,00,000 × 10/100 × 7/12 = ₹ 23,333
A's Capital = 3,00,000 × 10/100 × 7/12 = ₹ 17,500
Total Interest = (46,667+ 23,333 + 17,500) =₹ 87,500.

(iv) Z's Commission:

Particulars	₹
Profit for the period 1.4.14 to 31.8.14 = 9,00,000 × 5/12 =	3,75,000
Less: Interest on Capital	37,500
Profit before Commission	3,37,500

Z's Commission = 3,37,500 × 10/110 = ₹ 30,682

(v) Distribution of Profit among Partners:

Particulars	**X (₹)**	**Y (₹)**	**Z (₹)**	**A (₹)**
Profit for first 5 months:				
3,75,000 – 37,500 – 30,682 = 3,06,818				
Among X, Y and Z in the ratio 2 : 2 : 1	1,22,727	1,22,727	61,364	---
Profit for last 7 months:				
5,25,000 – 87,500 - = 4,37,500 among Y, Z & A in the ratio 8 : 4 : 3	---	2,33,333	1,16,667	87,500

(b) The net profit is calculated as follows:

Particulars	₹
Sales Revenue	85,00,000
Less: Direct Costs	50,00,000
Gross profits	35,00,000
Less: Operating Expense	7,50,000
EBIT	27,50,000
Less: Interest (30% of 90,00,000 = 27,00,000 × 10%)	2,70,000
EBT	24,80,000
Less: Taxes (@ 30%)	7,44,000
PAT	17,36,000

(i) Net Profit Margin
Net Profit margin = EBIT (1 – t)/Sales×100 = 27,50,000 (1–0.3)/85,00,000×100 = 22.65%
Or, PAT / Sales × 100 = 17,36,000 / 85,00,000 × 100 = 20.42%.

(ii) Return on Assets (ROA)
ROA = EBIT (1 – t)/Total Assets ×100 = 27,50,000 (1 – 0.3)/90,00,000 ×100 = 21.39%.

(iii) Asset Turnover
Asset Turnover = Sales / Assets = 85,00,000 / 90,00,000 = 0.94

(iv) Return on Equity (ROE)
ROE =[PAT / Equity]×100 = 17,36,000 / (90,00,000 × 0.70) ×100
= [17,36,000 / 63,00,000] ×100 =27.56%.

3. (a) The following is an extract from the Trial Balance of Roshan Bank Ltd. as at 31st March, 2015.

Particulars	₹	₹
Bill discounted	**1,54,50,000**	
Rebate on bills discounted not yet due, April 1, 2014		**91,503**
Discount received		**4,36,500**

An analysis of the bills discounted as shown above the following:

Date of bills	Amount	Term months	Discounting percentage p.a.
January 13, 2015	**22,50,000**	**4**	**12**
February 17, 2015	**18,00,000**	**3**	**10**
March 6, 2015	**12,00,000**	**4**	**11**
March 16, 2015	**6,00,000**	**2**	**10**

Find out the amount of discount received to be credited to Profit and Loss Account and pass appropriate Journal Entries for the same. [8]

(b) The following items were extracted from the Balance Sheet of Poorva Ltd. as on 1st April, 2014:

Particulars	(₹)
9% Preference Share capital	**40,00,000**
Equity Share Capital fully paid up	**1,00,00,000**
Securities Premium	**70,00,000**
12% Debentures	**1,00,00,000**

Profit before interest on debentures and before payment of tax @ 30% is ₹ 1,15,00,000 for the year ended 31st March, 2015. The Board of Directors of the Company proposed a dividend of 15% on equity capital. The company also decided to transfer creation of general reserve @ 5% of net profit (i.e. ₹ 72,10,000). Corporate dividend tax is payable @ 16.995%. Pass the necessary journal entries to incorporate the Board's recommendations and show hoe the items concerned would be shown on the liabilities side of the Balance Sheet of Poorva Ltd. as on 31st March, 2015. It may be assumed that debenture interest has been paid. [7]

Answer:

3. (a)

Calculation of unexpired discounts or rebate on bills discounted

Date of Bills	Date of Maturity including three days of grace	No. of days after March 31	Amount (₹)	Rate of discount % p.a.	Total Annual Discount	Proportionate Discount for days after 31st March
2015	2015					
Jan.13	May 16	46	22,50,000	12	2,70,000	34,027(2,70,000× $\frac{46}{365}$)
Feb.17	May 20	50	18,00,000	10	1,80,000	24,658(1,80,000× $\frac{50}{365}$)
Mar.6	July 9	100	12,00,000	11	1,32,000	36,164(1,32,000× $\frac{100}{365}$)
Mar.16	May 9	49	6,00,000	10	60,000	8,055(60,000× $\frac{49}{365}$)
						1,02,904

So, unexpired discounts on 31st March, 2015 = ₹ 1,02,904

The amount to be credited to P&L A/c is ascertained from the Discount Account as follows:

Dr. Discount on Bills Account Cr.

Date	Particulars	₹	Date	Particulars	₹
2015 Mar.31	To P&L A/c (Bal. Fig.)	4,25,099	2015 Mar. 31	By Sundries	4,36,500
Mar.31	To Rebate on Bills Discounted (on 31.3.15)	1,02,904		By Rebate on Bills Discounted (on 1.4.14)	91,503
		5,28,003			5,28,003

Journal

Date	Particulars	Dr. (₹)	Cr. (₹)
2015 Mar.31	Rebate on Bills Discounted A/c Dr. To Discount on Bills A/c (Being unexpired discount brought forward from the previous year, credited to Discount Account)	91,503	91,503
Mar.31	Discount on Bills A/c Dr. To Rebate on Bills Discounted A/c (Being provision for unexpired discount required at the end of the year)	1,02,904	1,02,904
Mar.31	Discount on Bills A/c Dr. To Profit and Loss A/c (Being discount earned for the year ending 31st March, 2015, transferred)	4,25,099	4,25,099

(b)

In the books of Poorva Ltd.

Journal Entries

Date	Particulars	Dr. (₹)	Cr. (₹)
31.3.15	Profit and Loss A/c Dr. To Debenture Interest A/c (Being transfer of debenture interest to P&L A/c)	12,00,000	12,00,000
31.3.15	Profit and Loss A/c Dr. To Provision for Taxation A/c (Being provision for tax made @ 30% on ₹ 1,03,00,000 i.e., ₹ 1,15,00,000 – ₹ 12,00,000)	30,90,000	30,90,000

31.3.15	Profit & Loss A/c Dr. To General Reserve A/c (Being creation of general reserve @ 5% of net profit i.e. ₹72,10,000)	3,60,500	 3,60,500
31.3.15	Profit and Loss A/c Dr. To Preference share dividend A/c (Being preference share dividend payable @ 9% on ₹40,00,000)	3,60,000	 3,60,000
31.3.15	Profit and Loss A/c Dr. To Equity Share Dividend A/c (Being equity share dividend payable @ 15% on ₹1,00,00,000)	15,00,000	 15,00,000
31.3.15	Profit & Loss A/c Dr. To Provision for corporate dividend tax A/c (Being provision made for corporate dividend tax @ 16.995% on total dividend of ₹ 18,60,000)	3,16,107	 3,16,107

Balance Sheet (Extracts) as on 31st March, 2015

Particulars		₹
Equity and Liability		
Share holders' funds		
(a) Share capital	1	1,40,00,000
(b) Reserves and Surplus	2	1,20,33,893
Non-current liabilities		
(a) Long term borrowings	3	1,00,00,000
Current liabilities		
Short term provisions	4	52,66,107

Notes to accounts:

	Particulars			₹
1	**Share Capital**			
	Equity Share capital			
	Issued, subscribed and called up		1,00,00,000	
	9% Preference share capital		40,00,000	1,40,00,000
2	**Reserves and Surplus**			
	Securities Premium		70,00,000	
	General Reserve		3,60,500	
	Surplus (Profit & Loss A/c)		46,73,393	1,20,33,893
	(1,15,00,000–12,00,000–30,90,000–3,60,500–3,60,000–15,00,000–3,16,107)			
3	**Long-term borrowings**			
	Secured			
	12% Debenture			1,00,00,000
4	**Short-term Provisions**			
	Corporate Income-tax		30,90,000	
	Proposed Dividend			
	Preference	3,60,000		
	Equity	15,00,000	18,60,000	
	Corporate Dividend Tax		3,16,107	52,66,107

4. (a) Following is the Balance Sheet of the Rashtriya Club as on 1st April, 2014:

Liabilities	₹	Assets	₹
Capital Fund	**5,42,500**	**Investment in 4% bonds**	**1,50,000**
Creditors	**1,00,000**	**Stock**	**60.000**
Subscription received in advance	**30,000**	**Outstanding subscriptions:**	

for 2014-15			
Outstanding salaries	70,000	For 2012-13	1,90,000
		For 2013-14	3,00,000
		Balance at Bank	42,500
	7,42,500		7,42,500

Following balances on 31st March, 2015:
Creditors ₹ 50,000; Subscriptions for 2015-16 ₹ 40,000; Cash at Bank ₹ 1,77,000; Arrears of Subscriptions for 2013-14 ₹ 1,00,000; Arrears of Subscriptions for 2014-15 ₹ 2,70,000; Members arrears for provisions sold ₹ 40,000.
Details of Transactions during 2014-15:
Subscription received out of arrears of 2012-13 ₹ 1,80,000; Arrears of 2013-14 ₹ 1,70,000; Cash sales of provisions ₹ 1,20,000; Salaries paid ₹ 4,00,000; Interest received ₹ 4,500; 4% Bonds purchased ₹ 1,00,000 on 1.4.2014; Cash purchases of provision ₹ 9,00,000; Credit sale of provision to members ₹9,00,000.
Other information:
Subscription during 2014-15 was ₹ 7,00,000; Total purchase of provision ₹ 10,90,000; Profit on provisions ₹ 1,20,000; the salaries for the year 2014-15 were ₹ 4,50,000 and Rent ₹ 20,000.
You are required to prepare the Receipts and Payments Account, and the Income and Expenditure Account for the year ending 31st March, 2015. [10]

(b) Udhhami Furniture House sells goods on hire purchase basis by adding 20% on hire sales. Following information extracted from its books, prepare Hire Purchase Trading Account:

2014		₹
April 1	Stock with hire purchase customers at hire purchase price	2,50,000
April 1	Stock at shop	56,250
April 1	Installments overdue	15,000
2015		
March 31	Cash received from HP customers during the year	7,37,500
March 31	Purchases for the year	6,25,000
March 31	Installments overdue	27,500
March 31	Stock at shop	31,250
March 31	Stock with hire purchase customers at hire purchase price	3,12,500

[5]

Answer:
4. (a)

Receipts and Payments Account
for the year ended 31st March, 2015

Dr. **Cr.**

Receipts	₹	Payments	₹
To Balance in hand	42,500	By Salaries	4,00,000
To Subscriptions for:		By Investment purchased	1,00,000
2012-13	1,80,000	By Purchase of provisions	90,000
2013-14	1,70,000	By Creditors (W.N.3)	10,50,000
2014-15 (W.N.4)	4,00,000	By Balance in hand	1,77,000
To Cash Sales	1,20,000		
To Interest	4,500		
To Debtors (W.N.2)	8,60,000		
To Subscriptions (for 2015-16)	40,000		
	18,17,000		18,17,000

Income and Expenditure Account
For the year ended 31st March, 2015

Dr. **Cr.**

Expenditure	**₹**	**Incomes**	**₹**
To Salaries	4,50,000	By Subscriptions for 2014-15	7,00,000
To Rent	20,000	By Interest 4,500	
To Bad Debts (W.N.4) (Subscription for 2013-14)	30,000	Add: Accrued interest 5,500	10,000
To Excess of Income over expenditure	3,30,000	By Profit on Provision	1,20,000
	8,30,000		8,30,000

Working Notes:

1.

Provisions Account

Dr. Cr.

Particulars	₹	Particulars	₹
To Opening Stock	60,000	By Sales – Credit ₹ 9,00,000	
To Purchases	10,90,000	Cash ₹ 1,20,000	10,20,000
To Profit	1,20,000	By Closing Stock(Balance in figure)	2,50,000
	12,70,000		12,70,000

2.

Debtors Account

Dr. Cr.

Particulars	₹	Particulars	₹
To Sale of Provisions	9,00,000	By Cash (Bal. Fig.)	8,60,000
		By Balance c/d	40,000
	9,00,000		9,00,000

3.

Creditors Account

Dr. Cr.

Particulars	₹	Particulars	₹
To Cash (Bal. Fig.)	10,50,000	By Balance b/d	1,00,000
To Balance c/d	50,000	By Provisions	10,00,000
	11,00,000		11,00,000

4.

Subscription Account

Dr. Cr.

Particualrs	2012-13	2013-14	2014-15	Particulars	2012-13	2013-14	2014-15
To Balance b/d	1,90,000	3,00,000	---	By Balance b/d	---	---	30,000
To Income and Expenditure A/c	---	---	7,00,000	By Cash A/c	1,80,000	1,70,000	4,00,000*
				By Bad Debts A/c	---	30,000	---
				By Balance c/d	10,000*	1,00,000	2,70,000
	1,90,000	3,00,000	7,00,000		1,90,000	3,00,000	7,00,000

*means balancing figure.

(b)

Hire Purchase Trading Account

Dr. **Cr.**

Date	Particulars	₹	Date	Particulars	₹
2014 April 1	To, Opening Balance — Hire Purchase Stock	2,50,000		By, Loading on Hire Purchase Stock A/c	50,000
	Hire Purchase Debtors	15,000		By, Cash A/c	7,37,500
	To, Goods Sold on Hire Purchase A/c	8,12,500		By, Goods Sold on Hire Purchase A/c	1,62,500
	To, Loading on Hire Purchase Stock A/c	62,500	2015 March 31	By, Closing Balance	
				Hire Purchase Stock	3,12,500
	To, Profit transferred to General Profit and Loss A/c	1,50,000		Hire Purchase Debtors	27,500
		12,90,000			**12,90,000**

Goods Sold on Hire Purchase Account

Dr. **Cr.**

Date	Particulars	₹	Date	Particulars	₹
2014 April 1	To, Hire Purchase Trading A/c	1,62,500		By, Hire Purchase Trading A/c	8,12,500
	To, Shop Stock A/c	6,50,000	2015 March 31		
		8,12,500			**8,12,500**

Shop Stock Account

Dr. **Cr.**

Date	Particulars	₹	Date	Particulars	₹
2014 April 1	To, Balance b/d	56,250		By, Goods Sold on Hire Purchase A/c	6,50,000
	To, Purchase A/c	6,25,000	2015 March 31	By, Balance c/d	31,250
		6,81,250			**6,81,250**

Memorandum Hire Purchase Stock Account

Dr. **Cr.**

Date	Particulars	₹	Date	Particulars	₹
2014 April 1	To, Balance b/d	2,50,000		By, Memorandum Hire Purchase Debtors A/c	7,50,000
	To, Goods Sold on Hire Purchase A/c	8,12,500	2015 March 31	By, Balance c/d	3,12,500
		10,62,500			**10,62,500**

Memorandum Hire Purchase Debtors Account

Dr. **Cr.**

Date	Particulars	₹	Date	Particulars	₹
2014 April 1	To, Balance b/d	15,000		By, Cash A/c	7,37,500
	To, Memorandum Hire Purchase Stock A/c (Balancing Fig.)	7,50,000	2015 March 31	By, Balance c/d	27,500
		7,65,000			**7,65,000**

5. (a) Classify the following under personal, real and nominal accounts:

(i)	**Patent Rights**	**(vi)**	**Advertisement**
(ii)	**Outstanding Rent**	**(vii)**	**Export duty**
(iii)	**Drawings**	**(viii)**	**Securities and Shares**
(iv)	**Live Stock**	**(ix)**	**Suspense**
(v)	**Bank Overdraft**	**(x)**	**Work-in-progress**

[5]

(b) On 1st January 2009, Richa Limited issued 10,000, 15 year Debentures of ₹ 100 each bearing interest at 12% per annum. One of the conditions of issue was that the debentures could be redeemed by giving six months notice at any time after 5 years, at a premium of 10% either by payment in cash or by allotment of preference shares and / or other debentures according to the option of debenture holders on 1st April, 2014 either by payment in cash or by allotment of 8% Preference Shares of ₹ 100 each at ₹ 125 per share or by allotment of 13% Second Debentures of ₹ 100 each at ₹ 96 per debenture. Holders of 4,000 debentures accepted the offer of the Preference Share and Holders of 4,800 debentures accepted the offer of the 13% Second Debentures and the rest demanded cash. Redemption of debentures was completed on 1st October, 2014. Give Journal entries to record the transactions, relating to redemption. [10]

Answer:

5. (a)

Personal Account	(ii)	Outstanding Rent
	(iii)	Drawings
	(v)	Bank Overdraft
Real Account	(i)	Patent Rights
	(iv)	Live Stock
	(viii)	Securities and Shares
	(x)	Work-in-progress
Nominal Account	(vi)	Advertisement
	(vii)	Export duty
	(ix)	Suspense

(b)

Journal of Richa Limited

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
2014 Oct.1	6% Debentures A/c Dr. Premium on Redemption of Debentures A/c Dr. To Debenture holders A/c (Amount due for redemption of 1,000 6% Debentures at a premium of 4%)		10,00,000 1,00,000	 11,00,000
Oct.1	Debenture holders A/c Dr To 8% Preference Share Capital A/c To Securities Premium A/c (Conversion of amount payable on 4,000 12% Debentures into 3,520 8% Preference Shares of 100 each at a premium of 25%.)		4,40,000	 3,52,000 88,000
Oct.1	Debenture holders A/c Dr. Discount on Issue of Debentures A/c Dr. To 7% Second Debentures A/c (Conversion of amount payable on 4800 12% Debentures into 5500 13% Second Debentures at a discount of 4%.)		5,28,000 22,000	 5,50,000
Oct.1	Debenture holders A/c Dr. To Bank A/c (Holders of 1200 12% Debentures paid off in cash)		1,32,000	 1,32,000

Oct.1	Securities Premium A/c Dr. Profit & Loss A/c Dr. To Premium on Redemption of Debentures A/c To Discount on Issue of Debentures A/c (Premium on Redemption of Debentures and Discount on issue of Debentures written off).		88,000 34,000	 1,00,000 22,000

Working Notes:

(1) No. of 8% Preference Shares issued = (4,000 × 110)/125 = 3,520 Shares.

(2) No. of 13% Second Debentures Issued = (4,800 × 110)/96 = 5,500 New Debentures.

6. (a) The proprietors of Dhoora Departmental store wish to ascertain approximately separate net profits of their two particular departments A and B for the year ended 31st March, 2015. It is not possible to take stock on that date. However, normal rates of Gross Profit (before charging direct expenses) for the department concerned were 40% and 30% on sales respectively. There are six departments in the stores. The following figures were extracted from the books for the year ending 31st March, 2015:

	Department A (₹)	**Department B (₹)**
Stock (April 1, 2014)	**3,00,000**	**2,80,000**
Sales	**14,00,000**	**12,00,000**
Purchases	**9,00,000**	**7,20,000**
Direct Expenses	**1,83,000**	**2,84,000**

The total indirect expenses of all the six departments for the period were ₹ 3,60,000. These expenses (except one-third which is to be divided equally) are to be charged in proportion to departmental sales. The total sales of the other departments were ₹14,00,000. The Manager of each department is also entitled to a commission of 2 per cent on the turnover of his department. Prepare Departmental Trading and Profit & Loss account in columnar form for the year ending 31st March, 2015 making a stock reserve of 5% for each department on the estimated value of stock on 31st March, 2015. [10]

(b) The Trial balance of Karma Ltd as at 31.03.2014 shows the following items:

	Debit (₹)	**Credit (₹)**
Advance payment of Income Tax	**1,50,000**	
Provision for Taxation for year ended 31.03.2013		**1,00,000**

Following further information are given:

- **Advance payment of Income Tax includes ₹ 1,30,000 for 2012-13**
- **Actual tax liability for 2012-13 amounts to ₹ 1,35,000. No effect for the same has been so far given in the accounts.**
- **Provision for Income Tax to be made for the 2013-14 amounted to ₹ 2,00,000**

You are required to pass the necessary Journal entries for above. [5]

Answer:

6. (a)

Departmental Trading and Profit & Loss Account for the year ending 31st March, 2015

(₹ in '000)

Dr. **Cr.**

Particulars	Dept. A (₹)	Dept. B (₹)	Total (₹)	Particulars	Dept. A (₹)	Dept. B (₹)	Total (₹)
To Opening Stock	300	280	580	By Sales	1,400	1,200	2,600
To Purchases	900	720	1,620	By Closing Stock	360	160	520
To Direct Exp.	183	284	467	(Balancing Figure)			
To G.P. C/d	377	76	453				
	1,760	**1,360**	**3,120**		**1,760**	**1,360**	**3,120**
To Indirect Exp.				By G.P. b/d	377	76	453
-Equal Allocation:	20	20	40	By Net Loss	--	48	48
-Sales basis Allocation	84	72	156				
To Manager's commission @ 2% on Sales	28	24	52				
To Stock Reserve @ 5% on Closing Stock	18	8	26				
To Net Profit	227	--	227				
	377	**124**	**501**		**377**	**124**	**501**

Working Notes:

1. Gross profit before direct expenses:

	A (₹)	B (₹)
A – 40% of ₹ 14,00,000	5,60,000	---
B – 30% of ₹ 12,00,000	---	3,60,000
Less: Direct Expenses	1,83,000	2,84,000
Net Gross Profit	3,77,000	76,000

2. Allocation of Indirect Expenses:

Equal Allocation – 3,60,000 × 1/3 = 1,20,000 × 1/6 = ₹ 20,000 for each department.
Sales Basis – Sales Ratio for A, B and other 4 departments
= 14,00,000 : 12,00,000 : 14,00,000 or 7 : 6 : 7.
Indirect expenses for this basis = 3,60,000 × 2/3 = ₹ 2,40,000.
Share of Dept. A = 2,40,000 × 7/20 = ₹ 84,000
Share of Dept. B = 2,40,000 × 6/20 = ₹ 72,000.

(b)

Journal Entries

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
31.3.14	Income Tax A/c Dr. To Advance Payment of Income Tax A/c To Tax Payable A/c (Being the Tax Liability for 2012-13 and tax payable after adjusting advance payment of tax)		1,35,000	 1,30,000 5,000
	Provision for Tax (2012-13) A/c Dr. Profit and Loss Appropriation A/c Dr. To Income Tax A/c (Being tax for 2013-14 adjusted against provision)		1,00,000 35,000	 1,35,000
	Profit and Loss A/c Dr. To Provision for Taxation A/c (Being transfer to Profit and Loss A/c)		2,00,000	 2,00,000

7. (a) On 1st April, 2009 Mahi Limited obtained a mine on lease from Kachari Limited. The terms were as follows:

(i) Royalty at ₹ 25 per tonne raised.

(ii) Minimum Rent ₹ 1,50,000 per annum.

(iii) Short workings can be recouped in the next two years only but subject to a maximum of ₹ 37,500 per year. In the event of strike, the minimum rent would be taken pro-rata on the basis of actual working days but in the event of lockout, the lease would enjoy concession in respect of minimum rent for 50% of the period of lockout. In addition to the above, Mahi Ltd. has been granted a right to receive cash subsidy equal to 50% of the Unrecoupable shortworkings by the State Government up to the first 5 years of the lease.

The production during the first six years was as follows: -

Year	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15
Production (Tonnes)	2000	3000	8000	9000	4000	6000
					(Period of strike for 73 days)	(Lockout for two months)

Show the necessary Ledger Accounts in the books of Mahi Limited. [10]

(b) Give the title names of the following Accounting Standards (AS):

Sl. No.	AS	Title name
(i)	AS – 3	--------------------------------
(ii)	AS – 9	--------------------------------
(iii)	AS – 12	--------------------------------
(iv)	AS – 18	--------------------------------
(v)	AS - 27	--------------------------------

[5]

Answer:

7. (a)

In the books of Mahi Limited

Analytical Table

Year	Minimum Rent	Actual Royalty	Short workings	Short working Recouped	Subsidy	Transferred to P& L A/c	Closing Balance of Short-working	Payment to Landloard
	₹	₹	₹	₹	₹		₹	
2009-10	1,50,000	50,000	1,00,000	-			1,00,000	1,50,000
2010-11	1,50,000	75,000	75,000	-			1,75,000	1,50,000
2011-12	1,50,000	2,00,000	-	37,500	31,250	31,250	75,000	1,62,500
2012-13	1,50,000	2,25,000	-	37,500	18,750	18,750	-	1,87,500
2013-14	1,20,000	1,00,000	20,000	-			20,000	1,20,000
2014-15	1,37,500	1,50,000		12,500	-	-	7,500	1,37,500

Royalty Account

Dr. **Cr.**

Date	Particulars	₹	Date	Particulars	₹
31.3.10	To Kachari Ltd. A/c	50,000	31.3.10	By P. & L. A/c	50,000
31.3.11	To Kachari Ltd.A/c	75,000	31.3.11	By P. & L. A/c	75,000
31.3.12	To Kachari Ltd.A/c	2,00,000	31.3.12	By P. & L. A/c	2,00,000
31.3.13	To Kachari Ltd.A/c	2,25,000	31.3.13	By P. & L. A/c	2,25,000
31.3.14	To Kachari Ltd.A/c	1,00,000	31.3.14	By P. & L. A/c	1,00,000
31.3.15	To Kachari Ltd.A/c	1,50,000	31.3.15	By P. & L. A/c	1,50,000

Short workings Account

Dr. Cr.

Date	Particulars	₹	Date	Particulars	₹
31.3.10	To Kachari Ltd.	1,00,000	31.3.10	By Balance c/d	1,00,000
		1,00,000			**1,00,000**
01.4.10	To Balance b/d	1,00,000	31.3.11	By Balance c/d	1,75,000
31.3.11	To Kachari Ltd.	75,000			
		1,75,000			**1,75,000**
1.4.11	To Balance b/d	1,75,000	31.3.12	By Kachari Ltd.	37,500
			31.3.12	By, Cash A/c	31,250
			31.3.12	By, P/L A/c	31,250
			31.3.12	By, Balance c/d	75,000
		1,75,000			**1,75,000**
1.4.12	To Balance b/d	75,000	31.3.13	By Kachari Ltd.	37,500
			31.3.13	By, Cash A/c	18,750
			31.3.13	By, P/L A/c	18,750
		75,000			**75,000**
31.3.14	To Kachari Ltd.	20,000	31.3.14	By Balance c/d	20,000
		20,000			**20,000**
1.4.14	To Balance b/d	20,000	31.3.15	By Kachari Ltd.	12,500
			31.3.15	By Balance c/d	7,500
		20,000			**20,000**

Kachari Limited Account

Dr. Cr.

Date	Particulars	₹	Date	Particulars	₹
31.3.10	To Bank A/c	1,50,000	31.3.10	By Royalty A/c	50,000
			31.3.10	By Short workings A/c	1,00,000
		1,50,000			**1,50,000**
31.3.11	To Bank	1,50,000	31.3.11	By Royalty A/c	75,000
			31.3.11	By Short workings A/c	75,000
		1,50,000			**1,50,000**
31.3.12	To Short workings A/c	37,500	31.3.12	By Royalty A/c	2,00,000
31.3.12	To Bank	1,62,500			
		2,00,000			**2,00,000**
31.3.13	To Shortworkings A/c	37,500	31.3.13	By Royalty A/c	2,25,000
31.3.13	To Bank	1,87,500			
		2,25,000			**2,25,000**
31.3.14	To Bank	1,20,000	31.3.14	By Royalty A/c	1,00,000
			31.3.14	By Short workings A/c	20,000
		1,20,000			**1,20,000**
31.3.15	To Short workings A/c	12,500	31.3.15	By Royalty A/c	1,50,000
31.3.15	To Bank	1,37,500			
		1,50,000			**1,50,000**

(b)

Sl. No.	AS	Title name
(i)	AS – 3	Cash Flow Statement (Revised)
(ii)	AS – 9	Revenue Recognition
(iii)	AS – 12	Accounting for Government Grants
(iv)	AS – 18	Related Party Disclosures
(v)	AS - 27	Financial Reporting of Interests in Joint Venture

8. **Write short notes on (any three): [5 x3 =15]**
   (a) Distinguish between Capital Expenditure and Revenue Expenditure.
   (b) Disclosure requirement under AS – 13.
   (c) Importance of Ratio Analysis.
   (d) Restrictions imposed by the Banking Regulations Act, 1949 on payment of dividend in case of banking companies.
   (e) Advantages of Rights issue.

Answer:

8. **(a)Distinguish between Capital Expenditure and Revenue Expenditure:**

Sl. No.	Capital Expenditure	Sl. No.	Revenue Expenditure
1	Capital expenditures are incurred for more than one accounting period.	1	Revenue expenditures are incurred for a particular accounting period
2	Capital expenditure are of non-recurring nature.	2	Revenue expenditures are of recurring nature
3	All capital expenditures eventually become revenue expenditures.	3	Revenue expenditures are not generally capital expenditures.
4	Capital expenditures are not matched with capital receipts	4	All revenue expenditures are matched with revenue receipts
5	Capital expenditures are incurred before or after the commencement of the business.	5	Revenue expenditures are incurred always after the commencement of the business.

(b) Disclosure under AS – 13:
(i) Accounting policy for determination of carrying amount.
(ii) Income separately for long-term and current investments, at gross i.e., inclusive of TDS.
(iii) Profit or loss on disposal and changes in carrying amount separately for long term and current investments.
(iv) Significant restrictions on the right of ownership, realisability of investment or the remittance of income and proceeds of disposal.
(v) The aggregate amount of quoted and unquoted investments and aggregate market value of quoted investments.
(vi) Other specific disclosure as required by Statute governing the enterprise, (e.g., Schedule III requires classifications to be disclosed in term of Govt. or Trust securities, shares, debentures or bonds, investment properties others)

(c) Importance of Ratio Analysis:
Ratio analysis is an analytical tool for financial analysis. The importance and utility of ratio analysis as a tool of financial management may be discussed in the following ways:
(i) It helps the management to judge the efficiency of performance and assess the financial health of the business.
(ii) It helps to make the financial forecasts.
(iii) Organizational and departmental efficiency are evaluated through ratio analysis.
(iv) Ascertainment of the profitability trend of a firm is another benefit of ratio analysis.
(v) Accounting ratios are considered essential for co-ordinating various functional machineries of enterprise.

(d) Restrictions imposed by the Banking Regulations Act, 1949 on payment of dividend in case of banking companies:

As per Section 15 of the Banking Regulation Act, 1949, a banking company cannot pay dividend on its shares until all its capitalized expenses including preliminary expenses, organization expenses, share selling commission, brokerage, amount of losses incurred by tangible assets and any other item of expenditure not represented by tangible assets are completely written off. However, as per the Act, it is permissible for a banking company to pay dividend on its shares without written off:

(i) The depreciation in the value of its investments in approved securities where such depreciation has not actually been capitalized or otherwise accounted for as a loss.

(ii) The depreciation in the value of its investments in shares, debentures or bonds (other than approved securities) where adequate provision for such depreciation has been made to the satisfaction of its auditors; and

(iii) The bad debts where adequate provision for such bad debts has been made to the satisfaction of its auditors.

(e) Advantages of Rights issue

Control of the company is retained in the hands of the existing share holders. Issue of rights shares makes possible equitable distribution of shares without disturbing the established equilibrium of share holdings because right shares are offered to persons who on the date of rights issue are the holders of equity shares of the company proportionately to their holding of equity shares on date.

The existing shareholders do not suffer on account of dilution in the value of their holdings if fresh shares are offered to them because value of the shares is likely to fall when a fresh issue is made. The decrease in the value of shares will be compensated by getting new shares at a price lower than the market price. They are likely to suffer on account of dilution in the value of their holdings if fresh shares are offered to general public.

The expenses to be incurred in issuing fresh shares to public are avoided. Image of the company improves when rights issues are made from time to time and existing shareholders remain satisfied.