Paper – 5 - Financial Accounting

Section A is compulsory and answer any 5 questions from Section B

Section A

1. Answer the following questions (give workings): [2×10]

(a) Mukta Ltd. purchased a machine for ₹ 40 lakhs including excise duty of ₹ 8 lakhs. The excise duty is Cenvatable under the excise laws. The enterprise intends to avail CENVAT credit and it is reasonably certain to utilize the same within reasonable time. How should the excise duty of ₹8 lakhs be treated?

Answer:

Treatment of Excise Duty:

Particulars		Debit Amount (₹)	Credit Amount (₹)
Year of Acquisition			
Machine A/c	Dr.	32	
CENVAT Credit Receivable A/c	Dr.	4	
CENVAT Credit Deferred A/c	Dr.	4	
To, Supplier's A/c			40
Next Year			
CENVAT Credit Receivable A/c	Dr.	4	
To, CENVAT Credit Deferred A/c			4

(b) The following information has been extracted from the books of a lessee for the year 2012-2013:

Particulars	Amount(₹)
Shortworkings lapsed	**8,000**
Shortworkings recovered	**12,000**
Actual royalty based on output	**30,000**

Compute the minimum rent.

Answer:

Minimum rent = Actual royalty – Shortworkings recovered = ₹30,000 - ₹12,000 = ₹18,000.

(c) The following particulars are presented by Akash Ltd. (deals in clothing) as on 31.3.2012: Compute the value of stock as per AS 2.

Stock held by Akash Ltd.	**₹**
(Cost Price)	**10,550**
(Net Realisable Value)	**11,500**

The details of such stocks were:

	Cost Price ₹	Net Realisable Value ₹
Cotton	**5,600**	**4,960**
Woolen	**3,450**	**4,540**
Synthetic	**1,500**	**2,000**
	10,550	**11,500**

Answer:

As per AS 2, para 21, inventories are usually written at lower of Cost and Net Realizable Value on an item-by-item basis:

	Cost Price ₹	Net Realisable ₹	Value of Closing Stock ₹
Cotton	5,600	4,960	4,960
Woolen	3,450	4,540	3,450
Synthetic	1,500	2,000	1,500
	10,550	11,500	9,910

Hence, value of stock will be considered for ₹9,910 as per AS 2.

(d) Safety Life Insurance Co. furnishes you the following information:

Particulars	Amount (₹)
Life Insurance fund on 31.3.2012	**1,30,00,000**
Net liability on 31.3.2012 as per actuarial valuation	**1,00,00,000**
Interim bonus paid to policyholders during inter valuation period	**7,50,000**

Compute the Net Profit for the valuation period.

Answer:

Statement showing Net Profit for the valuation period

Particulars	Amount (₹)
Surplus (i.e. Life Insurance Fund on 31.03.2012 – Net Liability on 31.03.2012 as per actuarial fund)	30,00,000
Add: Interim bonus paid	7,50,000
Net Profit for the valuation period	37,50,000

(e) X and Y are partners having Capitals of ₹ 2,40,000 and ₹ 60,000 respectively and a profit sharing ratio of 4 : 1. Z is admitted for 1/5th share in the profits of the firm and he pays ₹ 90,000 as Capital. Find out the value of the Goodwill.

Answer:
Total Capital of the firm 90,000 × 5/1 = ₹4,50,000 [Taking Z's Capital as base]
Less: Combined Adjusted Capital = ₹3,90,000
[₹2,40,000 + ₹60,000 + ₹90,000]

Hidden Goodwill = ₹60,000

(f) In preparing the bank reconciliation statement for the month of June 2013, AB Company has the following data:

	₹
Balance as per bank statement	**15,375**
Cheques in transit	**1,250**
Cheques issued but not presented	**1,725**
Bank service charges	**100**

Compute the Bank Balance as per Cash Book.

Answer:

Bank Balance as per Cash Book
=₹15,375 + ₹1, 250 - ₹1,725 + ₹100
=₹15,000.

(g) Explain 'Prior Period Items' as per AS 5.

Answer:

Prior period items (income/expense) arise in the current period as a result of errors/omissions in the preparation of the financial statements, in one or more prior period, are generally infrequent in nature and distinct from changes in accounting estimates.
Prior period items are normally included in the determination of net profit/loss for the current period shown after determination of current period profit/loss. The objective is to indicate the effect of such items in the profit/loss. The separate disclosure is intended to show the impact on the current profit/loss.

(h) A bill of ₹20,000 drawn on 07.01.2012, due for payment on 10.04.2012 is discounted on 10.02.2012 at 24% p.a. Compute the amount of discount.

Answer: Bill discounted on 10.02.2012
Discount for 2 months
$= ₹20{,}000 \times 24\% \times \frac{2}{12} = ₹800.$

(i) Goods are transferred from Department X to Department Y at a price so as to include a profit of 33.33% on cost. If the value of closing stock of Department Y is ₹ 18,000, then determine the amount of stock reserve on closing stock.

Answer:

Stock Reserve on Closing Stock = $₹18{,}000 \times \frac{33.33\%}{133.33\%} = ₹4{,}500.$

(j) ₹ 30,000 is the annual instalment to be paid for three years (given Present Value of an annuity of ₹ 1 p.a. @ 5% interest is ₹ 2.7232). Ascertain the Cash Price in case of Hire-Purchase.

Answer:

Amount of Instalment	Present Value
1	2.7232
₹30,000	$\frac{2.7232 \times ₹30,000}{1}$
Cash price is	=₹81,696

Section – B

2. (a) A Company purchased following machines on different dates as follows;-

- **On April 1,2009 for ₹ 90,000**
- **On October 1,2010 for ₹ 60,000**
- **On July 1,2011 for ₹ 30,000**

The depreciation is to be charged @ 10% p.a. on original cost. On February 1, 2012 it sold one third of first machine which was bought on April 1, 2009 for ₹ 9,000 and one-half of the second machine bought on October 1,2010, on 31st March 2012 for ₹28,000 because it had become obsolete.

Prepare Machinery account for 3 years. [Show workings] [10]

Answer:

Machinery Account

Dr. **Cr.**

Dateate	Particulars	Amount ₹	Date	Particulars	Amount ₹
2009 April 1	To, Bank A/c (I)	90,000	2010 March 31	By, Depreciation A/c By, Balance c/d	9,000 81,000
		90,000			90,000
2010 April 1 Oct.1	To, Balance b/d To, Bank (II)	81,000 60,000	2011 March 31	By, Depreciation A/c I-9,000 II-3,000 By, Balance c/d I-72,000 II-57,000	 12,000 1,29,000
		1,41,000			1,41,000
2011 April 1	To, Balance b/d		2012 Feb 1	By, Deprecation	2,500

	I-72,000			By, Bank A/c (Sales)	9,000
	II-57,000	1,29,000		By, P&L A/c(Loss)	12,500
July 1	To, Bank A/c	30,000	March 31	By, Depreciation (On half of Machine-II)	3,000
March 31	To, P&L A/c	2,500		By, Bank (Sale)	28,000
			March 31	By, Depreciation	
				I- (⅔ of Machine –I)	6,000
				II- (½ of Machine –II)	3,000
				Machine-III	2,250
				By, Balance c/d	
				I-42,000	
				II-25,500	
				III-27,750	95,250
		1,61,500			**1,61,500**

Working Notes:

Statement Showing Computation of Depreciation:

Date	Particulars	Machine I ₹ 90,000		Machine II ₹60,000		Machine III ₹30,000	Total ₹
		2/3rd (Retained)	1/3rd (sold)	½ (retained)	½ (sold)	(retained)	
1.4.2009	Purchase of Machine-I	60,000	30,000				90,000
31.3.2010	Less: Depreciation for 2009-10	6,000	3,000				9,000
1.4.2010	WDV of Machine	54,000	27,000				81,000
1.10.2010	Purchase of Machine-II			30,000	30,000		60,000
							1,41,000
31.3.2011	Less: Depreciation for 2010-11 (in case of Machine-II depreciation will be calculated for 6 months i.e. from 1.10.2010 to 31.3.2011)	6,000	3,000	1,500	1,500		12,000
1.4.2011	WDV of Machines	48,000	24,000	28,500	28,500		1,29,000
1.7.2011	Purchase of Machine-III					30,000	30,000
							1,59,000
1.2.2012	Less: Depreciation on 1/3 of Machine-I till date (1/3 of Machine-I is sold for ₹9,000 on 1.2.2012)		2,500				
1.2.2012	WDV of 1/3 of Machine-I on 1.2.2012		21,500				
1.2.2012	Less: Sale proceed received for 1/3 of Machine-I		9,000				
1.2.2012	Loss on sale of 1/3 of Machine-I (to be transferred to P& L A/c)		12,500				
	WDV after sale of machine	48,000	NIL	28,500	28,500	30,000	1,35,000
31.3.2012	Less: Depreciation for 2011-12(depreciation on Machine –III will be for 9 months from1.7. 2011 to 31.3.2012)	6,000	NIL	3,000	3,000	2,250	14,250
31.3.2012	WDV after depreciation	42,000	NIL	25,500	25,500	27,750	1,20,750
31.3.2012	Less: Sale proceed received for 1/2 of Machine-II(Sale proceed is ₹28,000)				28,000		
31.3.2012	Gain on sale of ½ of Machine II (to be transferred to P& L A/c)				2,500		

31.3.2012	**WDV of Machines(after sale of ½ of Machine–II)**	42,000	NIL	25,500	NIL	27,750	95,250

(b) Mithil Mukherjee sells two products manufactured in her own factory . The goods are made in two departments, X and Y, for which separate sets of accounts are maintained. Some of the manufactured goods of department X are used as raw materials by department Y, and vice versa.

From the following particulars, you are required to ascertain the total cost of goods manufactured in department X and Y :

Particulars	Department X	Department Y
Total units manufactured	10,00,000	5,00,000
Total cost of manufacture	₹10,000	₹5,000

Department X transferred 2,50,000 units to Department Y and the latter transferred 1,00,000 units to the former. [6]

Answer:

Department X transferred 2,50,000 units out of 10,00,000 units or $\frac{1}{4}$th to Y

Department Y transferred 1,00,000 units out of 5,00,000 units or $\frac{1}{5}$th to X

Suppose a is the total cost of Department X, and
b is the total cost of Department Y
Then,

$a = ₹10,000 + \frac{1}{5}b$ ……… (1)

$b = ₹5,000 + \frac{1}{4}a$ ……… (2)

If we put the value of b in equation (1), we may write as : $a = ₹10,000 + \frac{1}{5}(₹5,000 + \frac{1}{4}a)$

or, $a = ₹10,000 + 1,000 + \frac{1}{20}a$

or, $a = ₹11,000 + \frac{1}{20}a$

or, $a - \frac{1}{20}a = ₹11,000$

or, $\frac{19a}{20} = ₹11,000$

or, $a = \frac{11,000 \times 20}{19} = ₹11,579$

Now, $b = ₹5,000 + \frac{1}{4} \times ₹11,579 = ₹7,895$

Total Cost of goods manufactured:

Particulars	Department X (₹)	Department Y (₹)
Cost (already given)	10,000	5,000
Add: Cost of goods transferred	1,579	2,895
	11,579	7,895
Less: Transfer to department	2,895	1,579
Net Cost of Goods manufactured	8,684	6,316

3. (a) M. Mitra had the following transactions with S.Sen:

2011			**₹**
Jan.	**20**	**Sold goods to S.Sen**	**280**
March	**2**	**Bought goods from S.Sen**	**150**
	3	**Accepted S.Sen's draft at 1 month due**	**120**
April	**11**	**Cash paid to S.Sen due end of May**	**100**
	30	**Goods sold to S.Sen (will be due on 31st May)**	**80**
May	**11**	**Bought goods from S.Sen**	**200**
June	**12**	**M. Mitra drew a bill on S.Sen, this day, payable two months after date and this was duly accepted by S.Sen**	**210**

Make out an Account Current to be rendered by M.Mitra to S.Sen as at 30th June, bringing interest into account @10% p.a. [6]

Answer:

M.Mitra in Account Current with S.Sen

Dr. **Cr.**

Date	Due Date	Particulars	Amount ₹	Days	Products	Date	Due Date	Particulars	Amount ₹	Days	Products
2011 Jan. 20	2011 Jan. 20	To, Sales A/c	280.00	161	45,080	2011 Mar.2	2011 Mar.2	By, Purchase A/c	150.00	120	18,000
Mar.3	Apr.6	To, B/P A/c	120.00	85	10,200	May 11	May 11	By, Purchases A/c	200.00	50	10,000
Apr. 11	Apr.11	To, Cash A/c	100.00	80	8,000	June 11	Aug 14	To, B/R A/C	210.00	(-)45	(-)9,450
Apr.30	May.31	To, sales A/c	80.00	30	2,400	June 30	Aug 14	To, Balance of products	-	-	47,130
June 30		To, Interest on balance of product for one day @ 10%	12.91		-			To, Balance c/d	32.91		
			592.91		**65,680**				**592.91**		**65,680**
July 1		To, Balance b/d	32.91								

Note: (i) Interest =₹ $47{,}130 \times \frac{10}{100} \times \frac{1}{365} =$ ₹12.91.

(b) A fire occurred on 15th September, 2012 in the premises of ABC Ltd. from the following figures, calculate the amount of the claim to be lodged with the insurance company for loss of stock:

Particulars	Amount (₹)
Stock at Cost as on 1st January,2011	**40,000**
Stock at Cost as on 1st January,2012	**60,000**
Purchases in 2011	**80,000**
Purchases from 1st January , 2012 to 15th September,2012	**1,76,000**
Sales in 2011	**1,20,000**
Sales from 1st January,2012 to 15th September, 2012	**2,10,000**

During the current year costs of purchase have risen by 10% above last year's level. Selling Price has gone up by 5%. Salvage value of stock after fire was ₹4,000. [7]

Answer:

Trading Account for the year ended 31.12.2011

Dr. **Cr.**

Particulars	Amount (₹)	Particulars	Amount (₹)
To, Opening Stock	40,000	By, Sales	1,20,000
To, Purchases	80,000	By, Closing Stock	60,000
To, Gross Profit	60,000		
	1,80,000		1,80,000

Rate of Gross Profit = $\frac{\text{Gross Profit}}{\text{Sales}} \times 100 = \frac{₹60{,}000}{₹1{,}20{,}000} \times 100 = 50$

Memorandum Trading Account for the period from 1st January 2012 to 15th September 2012

Dr. **Cr.**

Particulars	Actual (₹)	At Cost Level of 2011(₹)	Particulars	Actual (₹)	At Cost Level of 2011(₹)
To, Opening Stock	60,000	60,000	By, Sales [Note B]	2,10,000	2,00,000
To, Purchases [Note B]	1,76,000	1,60,000	By, Closing Stock	1,32,000	1,20,000
To, Gross Profit [Note C]	1,06,000	1,00,000			
	3,42,000	3,20,000		3,42,000	3,20,000

Statement of Claim for Loss of Stock

Particulars	Amount (₹)
Estimated value of Stock on date of fire (at current price level)	1,32,000
Less: Value of Salvaged Stock	4,000
	1,28,000

Working Notes:

A. It is assumed that rate of gross profit has not changed despite the change in cost purchases and selling price.

B. Purchase at Cost level of 2011 = ₹1,76,000$\times \frac{100}{110}$ = ₹1,60,000

Similarly sales at last year's level = ₹2,10,000$\times \frac{100}{105}$ =2,00,000.

C. Gross Profit from 1st January,2012 to 15th September,2012 = 50% of ₹2,00,000 = ₹1,00,000. (at cost level of 2011). The Gross Profit [actual] is the balancing figure after putting the actual value of stock which is ₹1,20,000 + 10% thereof = ₹1,32,000.

(c) What is meant by Reversionary Bonus in relation to Insurance policies? [3]

Answer:

In the case of life policies with profits, policyholders are given the right to participate in the profits of the business. After nationalization, policyholders are given 95% of profits of L.I.C. by way of bonus. Bonus can be paid in cash, adjusted against the future premiums due from the policy holders or it can be paid on the maturity of the policy, together with the policy amount. Bonus paid in the end along with the policy amount is called reversionary bonus.

4. (a) On 01.01.2009 Agni Ltd. purchased a Machine from Vayu Ltd. under hire purchase. The total amount payable (inclusive of interest charged at 5% p.a. by the vendor) was settled at ₹3,00,000 payable as ₹60,000 on 01.02.2009 and ₹80,000 each payable at the end of 3 consecutive years.
You are asked to compute the Cash Price if the Annuity Table is given to you. [4]

Answer:

Rate of interest 5% p.a.
No. of Instalments = 3
Value of each instalment = ₹80,000
Present Value [as curtained from above table] at 5% p.a. for 3 years are 0.952, 0.907 and 0.864 which should be applied in reserve order as the more we go on paying , payment for principal increases and interest diminishes.

Calculation of Cash Price and Interests

1 No. of Instalment	2 Total Amount Paid	3 Present Value of ₹1	4=2×3 Present Value of Amount Paid [Principal]
3rd	80,000	0.952	76,160
2nd	80,000	0.907	72,560
1st	80,000	0.864	69,120
	2,40,000		2,17,840
Initial Payment	60,000	-	60,000
	3,00,000		2,77,840
	Hire Purchase Price		Cash Price

(b) Compass, Cone and Circle are in partnership sharing profits and losses in the ratio of 3:2:1. The Balance Sheet of the firm as on 31st Dec,2012 was:

Liabilities	Amount ₹	Amount ₹	Assets	Amount ₹	Amount ₹
Capital Accounts: Compass Cone Circle	 40,000 60,000 20,000	 1,20,000	 Machinery (at cost) Less: provision for depreciation	 50,000 8,000	 42,000
Reserve		30,000	Furniture		1,000
Sundry Creditors		60,000	Sundry Debtors Less: Provision for Doubtful Debts	80,000 3,000	 77,000
			Stocks		50,000
			Cash at Bank		40,000
		2,10,000			2,10,000

On 31st March, Cone retired and Compass and Circle continued in partnership, sharing profits and losses in the ratio of 3:2. It was agreed that adjustments were to be made in the Balance Sheet as on 31st March 2013, in respect of the following:

i. **The Machinery was to be revalued at ₹ 45,000;**
ii. **The stock was to be reduced by 2%;**
iii. **The Furniture was to be reduced to ₹ 600;**
iv. **The provision for doubtful debts would be ₹ 4,000;**
v. **A provision of ₹300 was to be made for outstanding expenses.**

The partnership agreement provided that, on the retirement of a partner, goodwill was to be valued at ₹ 24,000 and Cone's share of the same was to be adjusted into the account of Compass and Circle. The profit up to the date of retirement was estimated at ₹ 18,000. Cone was to be paid off in full, Compass and Circle were to bring such an amount in cash so as to make their capital in proportion to the new profit – sharing ratio, subject to the condition that a cash balance of ₹ 20,000 was to be maintained as working capital.

Pass the necessary Journal entries to give effect to the above arrangements and prepare the Partners' Capital Accounts as on 31st March 2013. [12]

Answer:

In the Books of …………
Journal

Date	Particulars	L.F.	Dr. Amount ₹	Cr. Amount ₹
2013 Mar.31	 Reserve A/c Dr. To Compass's Capital A/c To Cone's Capital A/c To Circle's Capital A/c (Reserve transferred to the Capital Accounts of the partners in 3 : 2 : 1)		 30,000	 15,000 10,000 5,000

	Machinery A/c Dr. To Revaluation A/c (Value of the machinery increased on Cone's retirement)		3,000	 3,000
	Revaluation A/c Dr. To Stock A/c To Furniture A/c To Provision for Bad Debts A/c To Outstanding Expenses A/c (Value of the assets reduced on Cone's retirement)		2,700	 1,000 400 1,000 300
	Revaluation A/c Dr. To Compass's Capital A/c To Cone's Capital A/c To Circle's Capital A/c (Profit on revaluation transferred to the Capital Accounts of the partners)		300	 150 100 50
	Compass's Capital A/c Dr. Circle's Capital A/c Dr. To Cone's Capital A/c (Cone's share of goodwill to be adjusted against remaining partners' Capital Accounts in the gaining ratio of 3 : 7 as W.N. 1)		2,400 5,600	 8,000
	Profit and Loss (Suspense) A/c Dr. To Compass's Capital A/c To Cone's Capital A/c To Circle's Capital A/c (Estimated profit transferred to the Capital Account of the partners)		18,000	 9,000 6,000 3,000
	Cone's Capital A/c Dr. To Bank A/c (Payment is made to Cone on his retirement)		84,100	 84,100
	Bank A/c Dr. To Compass's Capital A/c To Circle's Capital A/c (Cash to be brought in by Compass and Circle as per agreement)		46,100	 16,430 29,670

Capital Account

Dr. **Cr.**

Particulars	Compass ₹	Cone ₹	Circle ₹	Particulars	Compass ₹	Cone ₹	Circle ₹
To Cone's Capital	2,400	-	5,600	By Balance b/d	40,000	60,000	20,000
,, Bank (bal. fig.)	-	84,100	-	,, Reserve	15,000	10,000	5,000
,, Balance c/d	78,180	-	52,120	,, Revaluation Profit	150	100	50
				,, Share of profit	9,000	6,000	3,000
				,, Compass's Capital	-	2,400	-
				,, Circle's Capital	-	5,600	-
				,, Bank (bal. fig.)	16,430	-	29,670
	80,580	84,100	57,720		80,580	84,100	57,720
				By Balance b/d	78,180	-	52,120

Working Notes:

1. **Total Value of Goodwill ₹24,000.**

$\therefore$ Cone's share of Goodwill = 24,000 x $\frac{2}{6}$ = 8,000 to be adjusted against Compass's and Circle's capital in 3 : 7.

Computation of ratio:

Compass = $\frac{3}{5} - \frac{3}{6} = \frac{3}{30}$ (gain)   Circle = $\frac{2}{5} - \frac{1}{6} = \frac{7}{30}$ (gain)

2.

Bank A/c

Dr. **Cr.**

	₹		₹
To Balance b/d	40,000	By Cone's Capital	84,100
,, Profit – increase in cash	18,000	,, Balance c/d	20,000
,, Compass and Circle's Capital (bal.fig.)	46,100	(to be maintained)	
	1,04,100		1,04,100

3. **Total Adjusted Capital of Compass and Cone**

Particulars	₹
Compass's Capital:	
(40,000 + 15,000 + 150 + 9,000 – 2,400)	61,750
Circle's Capital	
(20,000 + 5,000 + 50 + 3,000 – 5,600)	22,450
Plus: Total cash to be brought in	46,100
	1,30,300
Combined Adjusted Capital	
Compass's Capital $(1{,}30{,}300 \times \frac{3}{5})$	78,180
Circle's Capital $(1{,}30{,}300 \times \frac{2}{5})$	52,120

5. **(a) The board of directors decided on 31-3-2012 to increase the sale price of certain items retrospectively from 1st January, 2012.**
In view of this price revision with effect from 1st January, 2012, the company has to receive ₹ 50 lakhs from its customers in respect of sales made from 1st January, 2012 to 31st March, 2012 and the Accountant cannot make up his mind whether to include ₹ 50 lakhs in the sales for 2011-12. Suggest. [2]

Answer:

Price revision effected during the current accounting period 2011-12. As a result, the company stands to receive ₹ 50 lakhs from its customers in respect of sales made from 1st January, 2012 to 31st March, 2012. If the company is able to assess the ultimate collection with reasonable certainty, then additional revenue arising out of the said price revision may be recognized in 2011-12 vide para 10 of AS-9 (refer point 9.2).

(b) Assume a ₹2,50,000 contract that requires 3 years to complete and incurs a total cost of ₹2,02,500. The following data pertain to the construction period:

	Year I	Year II	Year III
Cumulative costs incurred to date	75,000	1,80,000	2,02,500
Estimated cost yet to be incurred at year end	1,50,000	20,000	-
Progressive billing made during the year	50,000	1,85,000	15,000
Collection of billings	37,500	1,50,000	62,500

The firm seeks your advice and assistance in the presentation of accounts keeping in view the requirements of AS – 7. [10]

Answer:

Particulars	Year I	Year II	Year III
Initial amount of Revenue agreed in contract	2,50,000	2,50,000	2,50,000
Variation	-	-	-
Total Contract Revenue (A)	2,50,000	2,50,000	2,50,000
Contract Cost Incurred	75,000	1,80,000	2,02,500
Contract cost yet to be incurred to complete	1,50,000	20,000	-
Total Estimated Contract Cost (B)	2,25,000	2,00,000	2,02,500
Estimated Profit (A-B)	25,000	50,000	47,500

Stage of Completion $\frac{₹75{,}000}{₹2{,}25{,}000} \times 100$; $\frac{₹1{,}80{,}000}{₹2{,}00{,}000} \times 100$; $\frac{₹2{,}02{,}500}{₹2{,}02{,}500} \times 100$

=33⅓% **=90%** **=100%**

Revenue, Expense and Profit recognised in Profit and Loss Statement

Year I	Upto the reporting date	Recognised in Prior Year	Recognised in Current Year
Revenue (2,50,000 × 33⅓%)	83,333	-	83,333
Cost incurred	75,000	-	75,000
Profits	8,333	-	8,333
Year II			
Revenue (2,50,000 × 90%)	2,25,000	83,333	1,41,667
Cost incurred	1,80,000	75,000	1,05,000
Profits	45,000	8,333	36,667
Year III			
Contract Revenue Earned	2,50,000	2,25,000	25,000
Cost incurred	2,02,500	1,80,000	22,500
	47,500	45,000	2,500

Contract Disclosure (AS-7)

	Year I	Year II	Year III
1. Contract revenue recognised	83,333	2,25,000	2,50,000
2. Contract expenses recognised	75,000	1,80,000	2,02,500
3. Recognised Profit (Loss)	8,333	45,000	47,500
4. Contract cost incurred	75,000	1,80,000	2,02,500
5. Contract cost that relates to future activity recognised as an asset	NIL	NIL	NIL
6. Progress Billing	50,000	2,35,000	2,50,000
7. Unbilled contract revenue	33,333	NIL	NIL
8. Advances	37,500	1,50,000	62,500
9. Contract cost incurred and recognised Profit (Less recognised Loss)	83,333	2,25,000	2,50,000
10. Gross amount due from customer	33,333	NIL	NIL
11. Gross amount due to customer	NIL	10,000	NIL
12. Retention	12,500	47,500	NIL

(c) When should capitalisation of Borrowing Cost cease as per AS 16? [4]

Answer :

As per paras 19, 20 and 21 of AS 16, Capitalisation of Borrowing Costs should cease when substantially all the activities necessary to prepare the qualifying assets for its intended use or sale are complete.

An asset is normally ready for its intended use or sale when its physical construction or production is complete even though routine administrative work might still continue. If minor modifications, such as the decoration of a property to the user's specification, are all that are outstanding, this indicates that, substantially, all the activities are complete.

When the construction of a qualifying asset is completed in parts and completed part is capable of being used while construction continues for the other parts, capitalisation of borrowing costs in relation to a part should cease when substantially all the activities necessary to prepare that part for its intended use or sale are complete.

6. (a) Fortune Insurance Co. Ltd. furnishes the following information:

(i) On 31.03.2012 it had reserve for unexpired risks to the tune of ₹80 Crore. It comprised of ₹30 Crore in respect of marine insurance business ; ₹40 Crore in respect of fire insurance business and ₹10 Crore in respect of miscellaneous insurance business.

(ii) It is the practice of Fortune Insurance Co. Ltd. to create reserve at 100% of net premium income in respect of marine insurance policies and at 50% net premium income in respect of fire and miscellaneous insurance policies.

(iii) During the year ended 31st March, 2013, the following business was conducted:

	Marine (₹ in Crores)	Fire (₹ in Crores)	Miscellaneous (₹ in Crores)
Premia collected from:			

(a) Insured (other than insurance companies) in respect of policies issued	**36**	**86**	**24**
(b) Other insurance companies in respect of risks undertaken	**14**	**10**	**8**
(c) Premia paid/payable to other insurance companies on business ceded	**13.4**	**8.6**	**14**

Fortune Insurance Co. Ltd. asks you to:

I. Pass journal entries relating to " unexpired risks reserve".

II. Show in columnar form Unexpired Risks Reserve Account for the year ended 31st March,2013. [8]

Answer:

Date	**Particulars**	**L.F.**	**Debit (₹ in Crores)**	**Credit (₹ in Crores)**
31st Mar,2013	Marine Revenue A/c Dr. To Unexpired Risks Reserve A/c (Excess of closing provision for unexpired risks of ₹36.6 Crore over opening provision of ₹30 Crore charged to Marine Revenue Account)		6.60	 6.60
	Fire Revenue A/c Dr. To, Unexpired risks Reserve A/c (Excess of closing provision for unexpired risks of ₹43.7 Crore over opening provision of ₹40 Crore charged to Fire Revenue Account)		3.70	 3.70
	Unexpired Risks Revenue A/c Dr. To, Miscellaneous Revenue A/c (Excess of opening provision for unexpired risks of ₹10 Crore over the required closing balance of ₹9 Crore in the provision account credited to Miscellaneous Revenue Account)		1.00	 1.00

Working Notes:

Required closing balance in Unexpired Risks Reserve Accounts:

For marine business = ₹(36 + 14 – 13.4) Crore = ₹36.6 Crore.

For fire business = $\frac{₹(86+10-8.6)\,\text{Crore}}{2}$ = ₹43.7Crore.

For miscellaneous business = $\frac{₹(24+8-14)\,\text{Crore}}{2}$ = ₹9 Crore.

Unexpired Risks Reserve Account **(₹ in Crore)**

Dr. **Cr.**

Date	Particulars	Marine	Fire	Misc.	Date	Particulars	Marine	Fire	Misc.
2013 March 31	To, Revenue A/c	--	--	1.00	2012 April,1	By, Balance b/d	30.00	40.00	10.00
,,	To, Balance c/d	36.60	43.70	9.00	2013 March 31	By, Revenue A/c	6.60	3.7	--
		36.60	**43.70**	**10.00**			**36.60**	**43.70**	**10.00**

(b) Vidyut Electricity Company decides to replace one of its old plant by an improved plant with larger capacity. The cost of new plant is ₹8,00,000. Material and labour earlier and now are in the ratio of 4:6. Original cost of the old plant is ₹1,50,000. Materials cost has gone up by 2½ times and labour cost by 3 times since then. Old materials worth ₹5,000 were used in the construction of the new plant and ₹10,000 were realized from the sale of old materials.
Give all necessary Journal entries for recording the above transaction. **[8]**

Answer:

Current Cost

Particulars	Cost of Original Works (₹)	Increase in %	(₹)	Current Cost (₹)
Materials (₹1,50,000× $\frac{4}{10}$)	60,000	250		1,50,000
Labour (₹1,50,000× $\frac{6}{10}$)	90,000	300		2,70,000
				4,20,000
Less : Sale of old Materials			10,000	
Old Materials used			5,000	15,000
Transferred to Revenue Account				4,05,000

Cost of the New Plant (Assuming that it does not include ₹5,000, value of used old materials)	₹8,00,000
Add: Old Materials used	5,000
	₹8,05,000
Less: Current Cost of Replacement	₹4,20,000
Capital Charges	₹3,85,000

In the books of Vidyut Electric Company
Journal

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
	Plant A/c Dr. Replacement A/c Dr. To, Bank A/c (Cash spent on the works including a purchase of new work amounting to ₹4,20,000)		3,80,000 4,20,000	 8,00,000
	Plant A/c Dr.		5,000	

	To, Replacement A/c (Old materials used)			5,000
	Bank A/c Dr. To, Replacement A/c (Amount received on the sale of old materials)		10,000	 10,000
	Revenue A/c Dr. To, Replacement A/c (Balance of Replacement Account transferred to Revenue Account)		4,05,000	 4,05,000

7. (a) Write a note on accounting Life Cycle. **[5]**

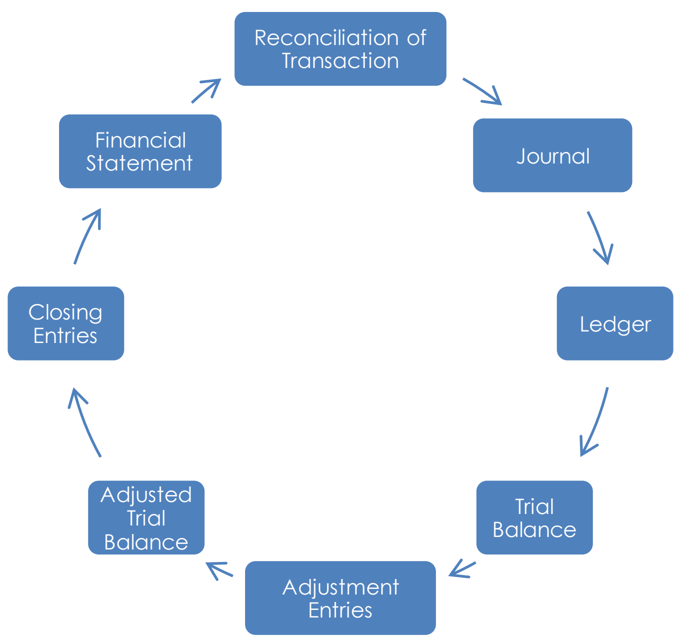
Answer:

Accounting Life Cycle:

When complete sequence of accounting procedure is done, which happens frequently and repeated in same directions during an accounting period, the same is called an accounting cycle.

Steps/Phases of Accounting Life Cycle

The steps or phases of accounting cycle can be developed as under:



ACCOUNTING LIFE CYCLE

i. **Recording of Transaction:** As soon as a transaction happens it is at first recorded in subsidiary book.

ii. **Journal :** The transactions are recorded in Journal chronologically.

iii. **Ledger:** All journals are posted into ledger chronologically and in a classified manner.

iv. **Trial Balance:** After taking all the ledger account's closing balances, a Trial Balance is prepared at the end of the period for the preparations of financial statements.

v. **Adjustment Entries :** All the adjustments entries are to be recorded properly and adjusted accordingly before preparing financial statements.

vi. **Adjusted Trial Balance:** An adjusted Trail Balance may also be prepared.

vii. **Closing Entries:** All the nominal accounts are to be closed by the transferring to Trading Account and Profit and Loss Account.

viii. **Financial Statements:** Financial statement can now be easily prepared which will exhibit the true financial position and operating results.

(b) The balance on the Sales Ledger Control Account of Q Ltd. on Sept. 32012 amounted to ₹ 9,600 which did not agree with the net total of the list of Sales Ledger Balance on that date.

Errors were found and the appropriation adjustments when made balanced the books. The errors were:

(i) Debit balance in the sales ledger amounting to ₹306 had been omitted from the list of balances.

(ii) A Bad Debt amounting to ₹750 had been written-off in the sales ledger, but had not been posted to the Bad Debts Account, or entered in Control Account.

(iii) An item of goods sold to Amar for ₹400 had been entered once in the Day Book but posted to his account twice.

(iv) ₹70 Discount Allowed to Manoj had been correctly recorded and posted in the books. This sum had been subsequently disallowed, debited to Manoj's account, and entered in the discount received column of the Cash Book.

(v) No entry had been made in the Control Account in respect of the transfer of a debit of ₹260 from Kumar's Account in the Sales Ledger to his account in the purchase ledger.

(vi) The Discount Allowed column in the Cash Book had been under cast by ₹280.

You are required to give the journal entries, where necessary, to rectify these errors, indicating whether or not any control accounts is affected, and to make necessary adjustments in the Sales Ledger Control Account bringing down the balance. [8]

Answer:

Journal

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
2012 Sept. 30				
	₹306 should be added to Sales Ledger Balances and it will not affect Control Account			
	Bad Debts A/c Dr. To, Sales Ledger Control A/c (Bad Debts written-off without recording in general ledger, now rectified.)		750	750
	Amar's Account should be credited by ₹400.		----	----

	It will not affect Control Account.			
	Discount Received A/c Dr. To, Purchases Ledger Control A/c Sales Ledger Control A/c Dr. To, Discount Allowed A/c (Discount previously allowed cancelled, which was wrongly treated as discount received, now rectified.)		70 70	 70 70
	Purchase Ledger Control A/c Dr. To, Sales Ledger Control A/c (Transfer of debit of Kumar's Account to Purchase Ledger , not recorded, now rectified.)		260	 260
	Discount Allowed A/c Dr. To, Sales Ledger Control A/c (Discount allowed account undercast, now rectified.)		280	 280

In General Ledger

Sales Ledger Control Account

Dr. **Cr.**

Date	Particulars	Amount ₹	Date	Particulars	Amount ₹
2012 Sept. 30	 To Balance b/d To, Discount Allowed A/c	 9,600 70	2012 Sept. 30	By Bad Debts A/c By, Transferred (Purchases Ledger Control) A/c By, Discount Allowed A/c By, Balance c/d	750 260 280 8,380
		9,670			9,670
Oct. 1	To, Balance c/d	8,380			

(c) What are the advantages of Self Balancing System? **[3]**

Answer:

The advantages of Self-Balancing System are as follows:

(i) If ledgers are maintained under self-balancing system it becomes very easy to locate errors.

(ii) This system helps to prepare interim account and draft final accounts, as a complete trial balance can be prepared before the abstruction of individual personal ledger balances.

(iii) Various works can be done quickly as this system provides sub-division of work among the different employees.

(iv) This system is particularly useful -
- where there are a large number of customers or suppliers and
- where it is desired to prepare periodical accounts.

(v) Committing fraud is minimized as different ledgers are prepared by different clerks.

(vi) Internal check system can be strengthened as it becomes possible to check the accuracy of each ledger independently.

8.(a) Uma Gadgets Ltd. sends electric ovens costing ₹2,400 each to their customers on Sale on Return basis. These are treated like actual sales and recorded through the Sales Day Book. Two months before the end of financial year it sent 300 ovens at an Invoice Price of ₹3,000 each, of which 40 ovens are accepted by customers at ₹2,800 each. Regarding the rest of the goods sent no further report is available. You are required to give the necessary Journal Entries at the end of the accounting year. [6]

Answer:

Books of Uma Gadgets Ltd.
Journal

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
	Sales A/c [40×₹200] Dr. To, Sundry Debtors A/c (Adjustment made for 40 ovens invoiced at ₹3,000 each and included in sales at that price, accepted at ₹2,800 each)		8,000	8,000
	Sales A/c [(300-40)×₹3,000] Dr. To, Sundry Debtors A/c (260 ovens invoiced at ₹3,000 each yet to be confirmed and adjusted)		7,80,000	7,80,000
	Stock on Sale or Return A/c Dr. To, Trading A/c[260×₹2,400] (Unconfirmed goods lying with customers included in Stock at Cost Price)		6,24,000	6,24,000

(b) Jupiter Ltd. purchased machinery from Kalpit Ltd. on 30.09.2012. The price was 370.44 lakhs before charging 8% sales tax and giving a trade discount of 2% on the quoted price. Transport charges were 0.25% on the quoted price and installation charges come to 1% on the quoted price.

A loan of ₹300 lakhs was taken from the bank on which interest at 15% per annum was to be paid. Expenditure incurred on the trial run was Material ₹35,000, wages ₹25,000 and Overheads ₹25,000.

Machinery was ready for use on 01.12.2012. However it was actually put to use only on 01.05.2013. Find out the cost of the machine and suggest the accounting treatment for the expenses incurred in the interval between the dates 01.12.2012 to 01.05.2013. The entire loan amount remained unpaid on 01.05.2013. [6]

Answer:

Calculation of cost of Machine as per AS – 10

(₹ in Lakhs)

Particulars	Amount
Price of machine	370.44
Less: Trade discount 2%	7.41
	363.03
Add: Sales Tax 8%	29.04
	392.07
Transport Charges 0.25% on ₹370.44	0.93
Installation Charges1% of ₹370.44	3.70

	396.70
Calculation of borrowing cost:	
30.09.2012 to 01.12.2012 300×(15/100)×(2/12)	7.50
	404.20
Add: Expenses on trial run	0.85
Total Cost	405.05

As per AS -16, the capitalization of interest should cease when substantially all the activities necessary for intended use are completed. Therefore interest for the period 01.12.2012 to 01.05.2013 should be expensed.

(c) Given below are details of interest on advance of a Commercial Bank as on 31.03.2012:

(₹ in Lakhs)

Particulars	**Interest Earned (₹)**	**Interest Received (₹)**
Performing Assets		
Term Loan	**720**	**480**
Cash Credit and Overdraft	**4,500**	**3,720**
Bills Purchased and Discounted	**900**	**900**
Non-Performing Assets		
Term Loan	**450**	**30**
Cash Credit and Overdraft	**900**	**72**
Bills Purchased and Discounted	**600**	**120**

Find out the income to be recognized for the year ended 31st March 2012. [4]

Answer:

As per RBI Circular, Interest on Performing assets should be recognised on Accrual Basis, but interest on Non-performing assets should be recognised on Cash Basis.

Statement Showing the Recognition of Income

Particulars	**Amount ₹**	**Amount ₹**
A. Interest on Term Loans		
(i) Performing Assets	720	
(i) Non-performing Assets	30	750
B. Interest on Cash Credit and Overdraft		
(i) Performing Assets	4,500	
(ii) Non-performing Assets	72	4,572
C. Interest on Bills Purchased and Discounted		
(i) Performing Assets	900	
(ii) Non-performing Assets	120	1,020
Income to be Recognised		6,342