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?

(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.

(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

(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.

(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.

(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.

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

(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.

(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.

(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.

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]**

(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]**

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]**

(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]**

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

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. **[4]**

(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]**

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]**

(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]**

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

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]**

(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]**

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

(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]**

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

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]**

(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]**

(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]**