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) ABC Ltd. sent goods on approval basis to Mr. Y at an invoice price of ₹60,000. The Cost of such goods is ₹50,000. The company accounted the above transaction as credit sales. State how the rectification of the above will affect the Final Accounts of the company.

(b) Sweet Ltd. with its head office in Delhi has a branch at Noida. The following information is given in respect of the branch for the year ended 31st March, 2013.

Particulars	₹
Goods sent to branch	9,50,000
Stock at branch as on 1st April, 2012	50,000
Cash sales	3,50,000
Returns from customers	17,000
Shortage found in stock at the end of 31st March, 2013	3,000
Credit sales	5,50,000

Calculate the closing balance of stock in the branch stock account.

(c) Happy Ltd. furnishes the following balances:

Particulars	As on 1st April, 2011 (₹)	As on 31st March, 2012 (₹)	As on 31st March, 2013 (₹)
Sundry Debtors		6,75,000	5,80,000
Bad debts written off		40,500	37,050
Discount allowed		13,500	12,750
Provision for doubtful debts	49,500		
Provisions for discount on debtors	18,000		

The company maintains a provision for bad debts @ 8% and a provision of 3% for discount on debtors. What will the balance in the provision for discount on debtors account be as on 31st March, 2013?

(d) A company reports the following information regarding pension plan assets. Calculate the fair value of plan assets at the end of the year:

Particulars	Amount ₹
Fair Market value of plan assets (beginning of year)	4,50,000
Employer Contribution	50,000
Actual return on plan assets	25,000
Benefit payments to retirees	20,000

(e) M bought goods from N for ₹20,000. N draws a bill on 1.1.2013 for 3 months which was accepted by M for this purpose. On 1.3.2013, M arranged to retire the bill at a rebate of 15% p.a. Show the entries in the books of N.

(f) On 31st March, 2013, the cash book of Ali Baba Ltd. showed an overdraft balance of ₹11,500 and this balance did not agree with the balance as per bank statement. On verification the following facts were discovered:

(i) Certain cheques amounting to ₹8,500 had not been presented for payment as on 31st March, 2013.

(ii) Interest on investment of ₹2,500 collected by the banker appears only in the bank statement.

(iii) The debit side of the cash book had been overcast by ₹1,000.

Determine the balance as per pass book.

(g) Annual insurance premium of ₹3,600 was paid in 2012-13, the insurance premium included ₹2,700 paid for one year up to 30th September, 2013. Calculate the amount of Insurance premium expense debited to Profit and Loss A/c for the period ended 31st March, 2013.

(h) ₹60,000 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.

(i) Goods costing ₹6,30,000 were sent out to consignee at a profit of 20 percent on invoice price. Consignee sold 2/3rd goods for ₹6,00,000. Consignee was entitled to an ordinary commission of 3 percent on sales at invoice price and over-riding commission of 20 percent of any surplus realized.

Calculate the amount of consignee's commission.

(j) MGS Ltd. purchased a machine costing ₹1,50,000 for its manufacturing operations and paid shipping costs of ₹30,000. MGS Ltd. spent an additional ₹12,000 testing and preparing the machine for use. What amount should MGS record as the cost of machine?

Section B

2. **(a)** P, Q and R were in partnership sharing profits and losses in the ratio of 3 : 2 : 1. The Balance Sheet as on 31.3.2013 is as under :

Liabilities	Amount ₹	Assets	Amount ₹
Capital – P	60,000	Machinery	80,000
Capital - Q	50,000	Furniture	15,000
Capital – R	40,000	Motor Car	30,000
Sundry Creditors	72,000	Stock	50,000
Bank Loan	30,000	Sundry Debtors	60,000
Other Liabilities	20,000	Cash at Bank	37,000
	2,72,000		2,72,000

P retired on 1.9.2013 and the partnership deed provided inter alia that in the event of admission, retirement or death of a partner, the assets and liabilities are to be revalued and that goodwill of the firm is to be computed on the basis of 2 years purchase of the correct profit of the last 4 years.

During the period he drew ₹30,000, interest on drawings @ 6% p.a.

It is discovered that the accounts required adjustments owing to certain mistakes in earlier years. On 1.10.2010 repairs to machinery for ₹ 6,000 had been wrongly debited to the Machinery Account, and on 1.4.2011 a piece of furniture, whose book value was ₹2,000 was disposed of for ₹800 but the proceeds were wrongly credited to Sales Account. The partners had been charging depreciation on all fixed assets at 10% p.a. on the reducing balance system on a time basis. Profits for the last four years without adjusting the above mentioned mistakes were as follows:

2009-10 ₹20,000; 2010-11 ₹24,000; 2011-12 ₹32,000; 2012-13 ₹36,000.

Revaluation on the date of retirement was:

Machinery- ₹90,000; Furniture- ₹10,000; Motor car - ₹22,000.

Partner will also be given proportionate share of profits based on the last year's profit.
Determine the amount to be paid to the retiring partner. **[9]**

(b) The following is an extract from the Trial Balance of Utsav Bank Ltd. as on 31st March 2010:

	₹
Rebate on Bills Discounted on 01.04.2009	68,259 (Cr.)
Discount Received	1,70,156 (Cr.)

Analysis of the bills discounted reveals:

Amount (₹)	Due Date
2,80,000	June 1, 2010
8,72,000	June 8, 2010
5,64,000	June 21, 2010
8,12,000	July 1, 2010
6,00,000	July 5, 2010

You are required to find out the amount of discount to be credited to Profit and Loss Account for the year ending 31st March 2010, and pass journal entries.
The rate of discount may be taken at 10% p.a. **[7]**

3. (a) The Balance Sheet of Mr. Upset on 31.3.2011 was as follows:

Liabilities	₹	Assets	₹
Sundry Creditors	93,000	Cash in hand	11,250
General Reserve	45,750	Cash at Bank	22,500
Capital	1,44,000	Sundry Debtors	51,000
		Stock	60,000
		Furniture	18,000
		Motor Car	27,000
		Building	90,000

	2,82,750		2,82,750

A fire occurred in the evening of 31st March, 2012 in his premises destroying all books and records. The cashier absconded with the available cash in the cash box.
Mr. Upset gives you the following information:

(i) Sales for the year 2011-12 were 20% higher than the previous years. He sells his goods at cost plus 25%. 20% of the total sales were made in cash. There was no cash purchases.

(ii) From 1st April, 2011 the stock level was raised to ₹75,000 and maintained at that level throughout the year.

(iii) Collections from Debtors were ₹90,000 in cash and ₹3,00,000 by cheques. Business expenses amounted to ₹63,000 out of which ₹15,000 was outstanding on 31st March, 2012 and ₹18,000 was paid by cheques . Creditors were paid by cheques only.

(iv) Analysis of bank statements revealed the following: Payment to creditors-₹4,12,500: Personal drawings- ₹22,500: Cash banked- ₹2,00,550: Cash withdrawn for office use-₹36,000.

(v) Gross profit as per last year's audited account was ₹90,000. Depreciation should be provided for at 5% on Furniture and Land and Building and at 20% on Motor Car.

You are required to ascertain the amount defalcated by the cashier and to prepare a Trading & Profit & Loss Account for the year ended 31st March, 2012 and a Balance sheet on that date. **[10]**

(b) Write note on Project Accounting. **[6]**

4. (a) M and N enter into a joint venture for guaranteeing the subscription at par of 1,00,000 shares of ₹ 10 each of a Joint Stock Company. They agree to share profit and losses in the ration of 2 : 3. The terms with the company are 4½% commission in cash and 6,000 shares of the company as fully paid-up.

The public took up 88,000 of the shares and the balance share of the guaranteed issue are taken up by M and N who provide cash equally. The commission in cash is taken by partners in the ratio of 4 : 5.

The entire shareholding of the joint venture is then sold through brokers – 25% price of ₹ 9. 50% at a price of ₹ 8.75; 15% at a price of ₹ 8.50 and the remaining 10% are taken over by M and N equally at ₹ 8 per share. The sale proceeds of the shares are taken by the partners equally.

Prepare a Joint Venture Memorandum Account and the separate accounts of M and N in the books of N and M, respectively, showing the adjustment of the final balance between M and N.

Ignore interest and income-tax. **[10]**

(b) The following information is avail from the books of the trader for the period 1st Jan. to 31st March 2012:

I. Total Sales amounted to ₹76,000 including the sale of old furniture for ₹10,000 (book value is ₹ 12,300). The total cash sales were 80% less than total credit sales.

II. Cash collection from Debtors amounted to 60% of the aggregate of the opening Debtors and Credit sales for the period. Discount allowed to them amounted to ₹2,600.

III. Bills receivable drawn during the period totaled ₹7,000 of which bills amounting to ₹3,000 were endorsed in favour of suppliers. Out of these endorsed bills, a Bill receivable for ₹ 1,500 was dishonoured for non-payment, as the party became insolvent and his estate realized nothing.

IV. Cheques received from customer of ₹5,000 were dishonoured; a sum of ₹ 500 is irrecoverable.

V. Bad Debts written-off in the earlier year realized ₹ 2,500.

VI. Sundry debtors on 1st January stood at ₹ 40,000.

You are required to show the Debtors Ledger Adjustment Account in the General Ledger.

[6]

5. (a) From the following particulars, show the entries in the books of Consignor regarding stock and deficiency in stock.
Goods sent on Consignment 1,000 calculators of ₹150 each.

Expenses incurred by consignor		Expenses incurred by consignee	
Freight	₹3,000	Clearing	₹2,000
Insurances	₹5,000	Storage	₹1,500

Consignee sold 950 calculators and he informed that a deficiency of 5 units is disclosed by his actual physical stock taking. **[5]**

(b) Show adjustment journal entries in the books of Head Office at the end of April 2013 for incorporation of inter-branch transactions assuming that only Head Office maintains different branch account in its books.

A. Delhi Branch:

(i) Received goods from Mumbai - ₹70,000 and ₹30,000 from Kolkata.

(ii) Sent goods to Chennai - ₹50,000, Kolkata - ₹40,000

(iii) Bills receivable received - ₹40,000 from Chennai.

(iv) Acceptances sent to Mumbai - ₹50,000 , Kolkata - ₹20,000.

B. Mumbai Branch (apart from the above):

(v) Received goods from Kolkata - ₹30,000, Delhi - ₹40,000.

(vi) Cash sent to Delhi - ₹30,000, Kolkata-₹14,000.

C. Chennai Branch (apart from the above)

(vii) Received goods from Kolkata- ₹60,000

(viii) Acceptances and cash sent to Kolkata - ₹40,000 and ₹20,000 respectively.

D. Kolkata Branch (apart from the above):

(ix) Sent goods to Chennai - ₹70,000

(x) Paid cash to Chennai - ₹70,000

(xi) Acceptances sent to Chennai – ₹30,000. **[6]**

(c) To accommodate Asha, Bipasha accepts a bill drawn on 01.01.2012 for ₹10,000 payable after three months. On the same date, Asha gets the bill discounted @ 24% p.a. On due date, Asha remits the amount of bill to Bipasha to honour the bill and the bill is duly paid by Bipasha on due date. Show the Journal Entries in the books of Asha and Bipasha. **[5]**

6. **(a)** Sales include ₹400 lakhs representing royalty receivable for supply of knowhow to a Company in South-East Asia. As per agreement the amount is to be received in US Dollars. However, exchange permission was denied to the Company in South-East Asia for remitting the same. **[6]**

(b) X who was closing his books on 31.03.2012 failed to take the actual stock which he did only on 9th April 2012 when it was ascertained by him to be worth ₹35,000.
It was found that sales are entered in the sales book on the same day of dispatch and return inwards in the returns book as and when the goods are received back. Purchases are entered in the purchase day book once the invoices are received.
It was found that sales between 31.03.2012 and 09.04.2012 as per the sales book are ₹1,720. Purchases between 31.03.2012 and 09.04.2012 as per Purchase Day book are ₹120, out of these goods amounting to ₹50 were not received until after the stock was taken.
Goods invoiced during the month of March, 2012 but goods received only on 4th April, 2012 amounted to ₹100. Rate of Gross Profit is $33\frac{1}{3}\%$ on cost.

Ascertain the value of stock as on 31.3.2012. **[6]**

(c) Goods purchased on 24.02.2009 of US $ 20,000 ₹46.60
Exchange rate on 31.03.2009 ₹47.00
Date of actual payment 05.06.2010 ₹47.50
Calculate the loss/gain for the financial years 2008-2009 and 2010-11. **[4]**

7. **(a)** On 1.1.2012, 6% 200 Debentures of ₹ 100 each of Yuba Ltd. were held as investments by X Ltd. at a cost of ₹ 18,200. Interest is payable on 31st December.
On 1.4.2012, ₹4,000 of such Debentures were purchased by X Ltd. @ ₹98 and on 1.1.2012. ₹6,000 Debentures were sold at ₹96 ex-interest. On 1.12.2012 ₹8,000 Debentures were sold @ ₹99 cum-interest. On 31.12.2012, X Ltd. sold ₹10,000 Debentures @ ₹95.
Prepare Investment Account for 6% Debentures of Yuba Ltd. in the books of X Ltd. ignore income-tax. **[5]**

(b) A Life Insurance Company gets its Valuation made once in every two years. Its life assurance fund on 31st Dec. 2012 stood at ₹55,55,000 before providing for ₹55,000-being the shareholders' dividend for 2012. Its actuarial valuation on 31st Dec. 2012 disclose a net liability of ₹35,00,000. An interim bonus of ₹1,00,000 was paid to the policyholders during the previous two years.
You are required to show
(i) Valuation Balance sheet;
(ii) Net Profit for the period, and
(iii) The Distribution of the Surplus. **[7]**

(c) Write a note on Generally Accepted Accounting Principles. **[4]**

8. **(a)** Write a note on "Valuation Balance Sheet" in relation to Insurance Companies. **[7]**

(b) Briefly define Contra Transaction in relation to Self Balancing Ledger. **[3]**

(c) A Plant was depreciated under two different methods as under:-

	Straight Line Method	Written Down Value
1st year	3.90	10.69
2nd year	3.90	7.90
3rd year	3.90	5.84
4th year	3.90	4.32
	15.60	28.75
5th year	3.90	3.19

Required:-

i. If the Company followed Witten Down Value for first four years and decides to switch over to Straight Line Method, what would be the amount of resultant surplus/deficiency?

ii. If the Company followed Straight Line Method for first four years and decides to switch over to Witten Down Value, What would be amount of resultant surplus/deficiency? **[6]**