Paper 5- Financial Accounting

Full Marks:100 **Time allowed: 3 hours**

[This paper contains 7 questions. All questions are compulsory, subject to instruction provided against each question. All workings must form part of your answer.]

1. Answer All questions (give workings) [2 x10=20]

(i) 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:

- **Certain cheques amounting to ₹8,500 had not been presented for payment as on 31st March, 2013.**
- **Interest on investment of ₹2,500 collected by the banker appears only in the bank statement.**
- **The debit side of the cash book had been overcast by ₹1,000.**

Determine the balance as per pass book.

Answer:

Particulars	Amount (₹)	Amount (₹)
Overdraft balance as per Cash Book		11,500
Add: Adjustment for cash book		1,000
Less:		
Cheques issued but not presented	8,500	
Interest on investment directly credited to bank account	2,500	11,000
Overdraft balance as per Pass Book		**1,500**

(ii) Indian Insurance Co. Ltd. Furnishes you with the following information:

During 2013, the following business was conducted:

[₹ in crores]

Particulars	Marine	Fire	Misc
Premia Collected From:			
(a) Insureds in respect of policies issued	**36.0**	**43.0**	**12.0**
(b) Other insurance companies in respect of risks undertaken	**14.0**	**5.0**	**4.0**
Premia paid/ payable to other insurance companies on business ceded	**13.4**	**4.3**	**7.0**

Calculate the Net premium Income

Answer:

Calculation of Net Premium Income

[₹ in crores]

Particulars	Marine	Fire	Misc
Premia collected from Policy holders	36.00	43.00	12.00
Premia collected from other insurance companies	14.00	5.00	4.00
	50.00	48.00	16.00
Less: Premia Paid/ Payable to other Insurance companies	13.40	4.30	7.00
	36.60	43.70	9.00

(iii) Simptronic sells computers on Hire Purchase basis at cost plus 20%. Terms of sale are ₹24,000 down payment and eight monthly instalments of ₹ 12,000 for each computer. Three computers were repossessed for non-payment of instalments and to be valued at 50% of cost price. Compute the value of repossessed computers.

Answer :

Total HP price per computer = Down payment + Instalments = 24,000 + (8 × 12,000)
= ₹ 1,20,000

HP Price = 120% of cost. So, cost per computer = $\frac{1,20,000}{120\%}$ = ₹ 1,00,000

Value of repossessed computers = 50% of cost = 50% of 1,00,000 = ₹ 50,000 each

(iv) Calculate the amount of Insurance claim to be lodged based on the following information:

Value of stock destroyed by fire	**₹ 1,80,000**
Insurance policy amount (subject to average clause)	**₹ 1,30,000**
Value of stock salvaged from fire	**₹ 80,000**

Answer:

Total value of stock before fire = ₹ (1,80,000+80,000) = ₹ 2,60,000.

Amount of Insurance Claim = $\frac{\text{Stock destroyed by fire}}{\text{Total stock before fire}} \times \text{Amount Insured}$

$= \frac{₹1,80,000}{₹2,60,000} \times ₹1,30,000$

= ₹ 90,000.

(v) The following information has been extracted from the books of a lessee for the year 2013-2014:

Particulars	Amount(₹)
Shortworkings lapsed	**32,000**
Shortworkings recovered	**48,000**
Actual royalty based on output	**1,20,000**

Answer:

Minimum rent = Actual royalty – Shortworkings recovered
= ₹1,20,000 - ₹48,000 = ₹72,000.

(vi) X, Y and Z are sharing Profits and losses in the ratio of 5: 3 : 2. Calculate the new profit sharing ratio and the sacrificing ratio if Z acquires 1/10 th share equity from X and Y.

Answer:

X's New Share = 5/10 – 1/20 = 9/20, Y's New Share = 3/10 – 1/20 = 5/20,
Z's New Share = 2/10 + 1/10 = 3/10
New Profit Sharing ratio of X, Y and Z = 9/20 : 5/20 : 3/10 = 9 : 5 : 6
Share Gained by Z = 1/10
Sacrificing Ratio of X & Y = 1 : 1

(vii) Safety Insurance Company Ltd. received ₹ 1,18,000 as Premium on New Policies and ₹24,000 as Renewal Premium. The Company received ₹18,000 towards Re-insurance Accepted and paid ₹14,000 towards Re-Insurance Ceded. How much will be credited to Revenue Account towards Premium?

Answer:

Particulars	Amount (₹)
Premium on Direct Business (First Year Premium 1,18,000 + Renewal Premium 24,000)	1,42,000
Add: Premium on Re-Insurance Accepted	18,000
Less: Premium on Re-Insurance Ceded	(14,000)
Amount to be credited to Revenue A/c towards Premium	1,46,000

(viii) On 1st January Piku and Niki draw bills on each other at 3 months for ₹15,000 for their mutual accommodation. They discount each other's bill at 10% p.a. and, on maturity, each party honours his own acceptance.
Show the journal entries made in the books of Piku.

Answer:

In the books of Piku
Journal

Date	Particulars	L.F.	Debit ₹	Credit ₹
Jan.1	Bills Receivable A/c Dr. To NIki A/c (Bills accepted by Niki for 3 months)		15,000	 5,000
,,	Bank A/c Dr. Discount A/c Dr. To Bills Receivable A/c (Bill discounted by the bank @10% p.a.)		14,625 375	 15,000
,,	Niki A/c Dr. To Bills Payable A/c (Bill accepted for 3 months)		15,000	 15,000

April 4	Bills Payable A/c Dr. To Bank A/c (Bill honoured at maturity)		15,000	 15,000

(ix) List the items to be excluded from Contract Cost.

Answer:

Costs that cannot be attributed to Contract Activity or cannot be allocated to a Contract are excluded from the Costs of a Construction Contract. Such costs include -

- General Administration Costs for which reimbursement is not specified in the Contract,
- Selling Costs,
- Research and Development Costs for which reimbursement is not specified in the Contract, and
- Depreciation of idle plant and equipment that is not used on a particular Contract.

(x) H Ltd maintains Self-Balancing Ledgers preparing Control Accounts at the end of each calendar month. On 3rd January, the accountant of the company located the following errors in the books of account –

- **The Sales Book of previous month, i.e., December, was undercast by ₹ 2,000.**
- **Goods invoiced at ₹ 31,200 were returned to Supplier, M/s. Mega Ltd but no entry was made in the books for this Return made on 28th December.**

Pass necessary Journal Entries.

Answer:

Journal Entries

Particulars	In which Ledger?	Dr. (₹)	Cr.(₹)
1.(a) Suspense A/c Dr. To Sales A/c	In Sales Ledger In Sales Ledger	2,000	 2,000
(b) Sales Ledger Adjustment A/c Dr. To General Ledger Adjustment A/c	In Sales Ledger In Sales Ledger	2,000	 2,000
2.(a) Mani Ltd. A/c Dr. To General Ledger Adjustment A/c	In Sales Ledger In Sales Ledger	31,200	 31,200
(b) Purchase Ledger Adjustment A/c Dr. To Purchase Returns A/c	In Sales Ledger In Sales Ledger	31,200	 31,200

2. (Answer any two)

(a) M Ltd. purchased a plant for US $20,000 on 31st December, 2012 payable after 4 months. The company entered into a forward contract for 4 months @₹ 48.85 per dollar. On 31st December, 2012, the exchange rate was ₹47.50 per dollar.
How will you recognize the profit or loss on forward contract in the books of M Limited for the year ended 31st March, 2013. [4]

Answer:

Calculation of Profit or Loss to be recognized in the books of M Limited

Particulars	₹
Forward contract rate	48.85
Less: Spot rate	47.50

Loss	1.35
Forward Contract Amount	$20,000
Total loss on entering into forward contract = ($20,000 x ₹1.35)	₹27,000
Contract period	4 months
Loss for the period 1st January, 2013 to 31st March, 2013 i.e. 3 months falling in the year 2012-2013 will be (₹ 27,000 x 3/4)	20,250

Balance loss of ₹6,750 (i.e. ₹ 27,000 - ₹ 20,250) for the month of April, 2013 will be recognized in the financial year 2013-2014.

(b)Discuss Prior Period item as per AS – 5. [4]

Answer:

Prior Period item

Prior Period items are income or expenses, which arise, in current period as a result of error or omission in the preparation of financial statement of one or more prior periods.

Disclosure of prior period items: The nature and amount of prior period items should be separately disclosed in the statement of profit and loss in a manner that their impact on current profit or loss can be perceived.

Examples of prior period items

- Error in calculation in providing expenditure or income
- Omission to account for income or expenditure

(c)Mr. Right sold goods on credit to various customers. Details related to one of the customer, Mr. Best, is as under:

(i) Goods sold on credit ₹ 5,00,000

(ii) Goods returned by the customer ₹ 35,000 due to defective quality, credit note raised but not recorded.

(iii) Payment received from customer in cash ₹ 1,00,000 and by cheques ₹ 2,30,000. Out of cheques received, a cheque of ₹ 38,000 was dishonoured by bank.

(iv) Customer accepted two Bills of ₹19,000 and ₹ 56,000 for 2 months and 3 months respectively.

(v) Credit note raised against the customer ₹ 3,400 for excess payment charged against one of the consignment.

Mr. Best, the customer is in need to ascertain the actual balance due to Mr. Right. Prepare a Reconciliation Statement. [4]

Answer:

Receivable from Mr. Best - Reconciliation Statement

Particulars	Amount (₹)
Credit Sales during the period	5,00,000
Less: Goods returned by the Customer, adjustment of credit note	35,000
Less: Payment received in cash	1,00,000
Less: Payment received by cheque less dishonored cheque (2,30,000 -	1,92,000

38,000)	
Less: Bills Receivable accepted by Customer, yet to be matured (19,000 +56,000)	75,000
Less : Adjustment of Credit Note raised	3,400
Net Receivable from Customer	94,600

3. (Answer any two)

(a) (i) How will you deal with the following items while preparing the Income and Expenditure Account for the year ending on March 31, 2013?

	As at 1.4.2012 ₹	**As at 31.3.2013 ₹**
Creditors for Sports Materials	**4,600**	**11,800**
Stock of Sports Materials	**15,000**	**30,400**

During 2012 – 2013, the payments made to these Creditors amounted to ₹ 56,800 and Cash Purchases amounted to ₹ 16,000. **[5]**

Answer:

An extract of Income and Expenditure Account
For the year ending on 31st March, 2013

Dr. Cr.

Expenditure	₹	**Income**	₹
To Sports Materials consumed	64,600		

Working Note:

(i) Creditors for Sports Materials Account

Dr. Cr.

Particulars	₹	**Particulars**	₹
To Bank A/c To Balance c/d	56,800 11,800	By Balance b/d By Stock of Sports Materials (Credit purchases) (Balancing figure)	4,600 64,000
	68,600		68,600

(ii) Stock of Sports Materials Account

Dr. Cr.

Particulars	₹	**Particulars**	₹
To Balance b/d To Creditors for Sports Materials A/c (Credit purchases transferred) To Bank A/c (Cash purchases)	15,000 64,000 16,000	By Income and Expenditure A/c (Sports Materials consumed) (Balancing figure) By Balance c/d	64,600 30,400
	95,000		95,000

(ii) The following particulars are available from the books of Good Ltd. :
April 1, 2012 Provision for Bad Debts ₹ 1,750.

During 2012 Bad Debts written off ₹ 1,500.
On 31st March 2013 balance of Sundry Debtors ₹ 64,800. Further bad debts to be written off amounted ₹ 800. It realized ₹ 980 written off as bad in 2010 and a provision of 5% was to be made on 31.03.2013. Show the Bad Debts Account for the year 2012-2013 assuming that the concern adjusts provision through the Bad Debts Account. [5]

Answer:

Books of Good Ltd.
Bad Debts Account

Dr. **Cr.**

Date	Particulars	Amount (₹)	Date	Particulars	Amount (₹)
31.03.13	To Sundry Debtors A/c [1,500 + 800]	2,300	01.04.12	By Provision b/d	1,750
31.03.13	To Provision c/d [5% of (64,800 – 800)]	3,200	31.03.13	By Profit & Loss A/c (Bal. Figure)	3,750
		5,500			5,500
			01.04.13	By Provision b/d	3,200

Note:
₹ 980 recovered out of Bad Debts written off in 2010 is to be recorded as:

Cash A/c ………………………………………..	Dr.	980	
To Bad Debt Recovered A/c			980
Bad Debt Recovered A/c ……………………	Dr.	980	
To Profit & Loss A/c			980

Alternatively Bad Debt recovered can be credited to Provision A/c or Bad Debts A/c (at least, here). In that case amount transferred to Profit & Loss Account would be ₹ 3,750 – ₹ 980 = ₹ 2,770.

(iii) What is meant by Foreign Branches and Independent Branches? [2]

Answer:

Foreign Branches: Branches which are located in a foreign country (i.e. in a country other than in which the company is incorporated and registered) are known as Foreign Branches.

Independent Branches: Branches which maintain independent accounting records are known as Independent Branches.

(b) Ram, Laxman and Bharat were partners sharing Profits and Losses in the ratio of 5:3:2 respectively. On 31st March, 2013, Balance Sheet of the firm stood as follows:

Liabilities	Amount (₹)	Assets	Amount (₹)
Capital A/c's		**Buildings**	**1,37,500**
Ram	**1,25,000**	**Furniture**	**62,500**
Laxman	**1,00,000**	**Stock**	**1,05,000**
Bharat	**70,000**	**Debtors**	**50,000**
Creditors	**83,750**	**Cash at Bank**	**28,000**
Outstanding Expenses	**4,250**		
	3,83,000		**3,83,000**

On 31st March, 2013 Ram decided to retire and Laxman and Bharat decided to continue as equal partners. Other terms of retirement were as follows:

(i) Building be appreciated by 20%
(ii) Furniture be depreciated by 10%
(iii) A provision of 5% be created for bad debts on debtors.
(iv) Goodwill be valued at two years purchase of profit for the latest accounting year. The firm's profit for the year ended 31st March 2013 was ₹ 62,500. No goodwill account is to be raised in the books of accounts.
(v) Fresh capital be introduced by Laxman and Bharat to the extent of ₹ 25,000 ₹ 87,500 respectively
(vi) Out of sum payable to retiring partner Ram, a sum of ₹ 1,12,500 be paid immediately and the balance be transferred to his loan account bearing interest @ 12% p.a. The loan is to be paid off by 31st March 2015.

One month after Ram's retirement Laxman and Bharat agreed to admit Ram's son Lav as a partner with 1/4th share in profit / losses. Ram agreed that the balance in his loan account be converted into Lav's capital. Ram also agreed to forgo one month's interest on his loan.
It was also agreed that Lav will bring in, his share of goodwill through book adjustment, valued at the price on the date of Ram's retirement. No goodwill account is to be raised in the books.

You are required to pass necessary Journal Entries to give effect to the above transactions and prepare Partner's Capital. [12]

Answer:

In the books of …………

Journal

Date	Particulars		Dr. (₹)	Cr. (₹)
1.	Building A/c To Revaluation A/c (Being building appreciated)	Dr.	27,500	 27,500
2.	Revaluation A/c To Furniture A/c To Provision for Doubtful Debts A/c (Being furniture depreciated by 10% and Provision for doubtful debts created @ 5% on Debtors)	Dr.	8,750	 6,250 2,500
3.	Revaluation A/c To Ram's Capital A/c To Laxman's Capital A/c To Bharat's Capital A/c (Being profit on revaluation transferred to capital accounts of partners)	Dr.	18,750	 9,375 5,625 3,750
4.	Laxman's Capital A/c Bharat's Capital A/c To Ram's Capital A/c (Being adjustment for Ram's share of goodwill)	Dr. Dr.	25,000 37,500	 62,500

5.	Bank A/c To Laxman's Capital A/c To Bharat's Capital A/c (Being fresh capital introduced by Laxman and Bharat)	Dr.	1,12,500	 25,000 87,500
6.	Ram's Capital A/c To Bank A/c To Ram's Loan A/c (Being settlement of Ram's capital on his retirement)	Dr.	1,96,875	 1,12,500 84,375
7.	Ram's Loan A/c To Lav's Capital A/c (Transfer of Ram's Loan Account to Lav's Capital Account)	Dr.	84,375	 84,375
8.	Lav's Capital A/c To Laxman's Capital A/c To Bharat's Capital A/c (Being adjustment entry passed for Lav's share of goodwill)	Dr.	31,250	 15,625 15,625

Partner's Capital Accounts

Dr. **Cr.**

Particulars	**Ram ₹**	**Laxman ₹**	**Bharat ₹**	**Lav ₹**	**Particulars**	**Ram ₹**	**Laxman ₹**	**Bharat ₹**	**Lav ₹**
To Ram (Goodwill)	---	25,000	37,500	---	By Balan b/d	1,25,000	1,00,000	70,000	---
To Bank	1,12,500	---	---	---	,, Rev A/c	9,375	5,625	3,750	---
To Ram's Loan A/c (b.f)	84,375	---	---	---	,, Laxman (Goodwill)	25,000	---	---	---
To Balan c/d	---	1,05,625	1,23,750	---	,, Bharat (Goodwill)	37,500	---	---	---
					,,By Bank (fresh capital)	---	25,000	87,500	
	1,96,875	**1,30,625**	**1,61,250**	**---**		**1,96,875**	**1,30,625**	**1,61,250**	**---**
To Laxman (Goodwill)	---	---	---	15,625	By Balan b/d	---	1,05,625	1,23,750	---
To Bharat (Goodwill)	---	---	---	15,625	By Ram's Loan A/c	---	---	---	84,375
To Balan c/d	---	48,500	55,750	21,250	By Lav (goodwill)	---	15,625	15,625	---
	---	**1,21,250**	**1,39,375**	**84,375**		**---**	**1,21,250**	**1,39,375**	**84,375**

Working Notes:

(i) Calculation of Gaining Ratio

Partners	**New ratio**	**Old ratio**	**Gain**	**Sacrifice**
Ram		5 /10		5/10
Laxman	1/2	3 /10	1/2 - 3 /10 = 2/10	
Bharat	1/2	2/10	1/2 - 2 /10 = 3/10	

Hence, ratio of gain between Laxman and Bharat = 2:3

(ii) Value of Total Goodwill of the firm = ₹ 62,500 x 2 = ₹ 1,25,000
Ram's Share = ₹ 1,25,000 x 5/10 = ₹ 62,500
Laxman will bear = ₹ 62,500 x 2/5 = ₹ 25,000
Bharat will bear = ₹ 62,500 x 3/5 = ₹ 37,500

(iii) Lav's share of goodwill = ₹ 1,25,000 x 1/4 = ₹ 31,250
Laxman and Bharat share equal profits. Therefore, their sacrificing ratio will also be equal. Hence, each of them will be credited with ₹ 15,625.

(c) Prantik Ltd. who keeps financial records in single entry mode provides the following data for the year ended 31st March, 2014.

Gross Profit Ratio	**40% on sales**	**Net Profit Ratio**	**10% on sales**
Debtors Turnover Ratio	**2 Months**	**Other Expenses (Administrative)**	**₹ 50 lakhs**
Creditors Turnover Ratio	**1.5 Months**	**Depreciation**	**₹ 10 lakhs**
Inventory Turnover Ratio	**2 Months**	**Debentures to Equity share capital**	**10%**
Current Ratio	**2.5 Months**		

Opening Stock was less than the Closing Stock by ₹ 8 lakhs. The ratio of cash sales to credit sales was 16:9. Depreciation was charged on Fixed Asset at 20%. Other expenses include the payment of interest on debentures. No dividends were declared during the year. Ignore taxation. By application of ratios compute Sales, Gross Profit, Net Profit, Credit sales, Closing Stock, Purchases, Debtors, Creditors, Current Assets, Fixed Assets. [12]

Answer::

Application of Ratios for computing missing figure

1	Sales	Since GP Ratio and NP Ratio are 40% and 10% of Sales respectively, Other Expenses debited to P&L Account = 40% - 10% = 30% of Sales. Since Other Expenses + Depreciation debited in P&L A/c = (₹ 50 + ₹ 10) Lakhs = ₹ 60 lakhs, Sales = 60 ÷ 30%	₹ 200 lakhs
2	Gross Profit	40% of Sales	₹ 80 lakhs
3	Net Profit	10% of Sales	₹ 20 lakhs
4	Credit Sales	Cash Sales to Credit Sales = 16:9 Hence, Credit Sales =Total Sales x 9/25= ₹200 x 9/25	₹ 72 lakhs
5	Closing Stock	To find closing stock, average stock value is required. Average Stock COGS x 2 months ÷ 12 months = (Sales – GP) x 2 /12 = 120 x 2/12 = ₹ 20 lakhs Average Stock = (Opening Stock + Closing Stock) ÷ 2 = ₹20 lakhs. Opening Stock =Closing Stock – 4 lakhs on substituting.	

		(Closing Stock – 4 + Closing Stock) ÷ 2 = 20; Hence, Closing Stock = Therefore, Opening Stock = 24 – 8 = ₹ 16 lakhs.	₹24 lakhs
6	Purchases	COGS = Opening Stock + Purchases – Closing Stock. Since COGS = Sales – GP = ₹ (200 – 80) = ₹ 120. Opening and Closing Stocks are known, on substitution, Purchases will be the balancing figure	₹ 128 lakhs
7	Debtors	Credit Sales x 2 months / 12 months = ₹ 72 x 2 / 12	₹ 12 lakhs
8	Creditors	Credit Purchases x 1.5 months ÷ 12 months = ₹ 128 x 1.5/12	₹ 16 lakhs
9	Current Assets	Current Ratio =2.5; CA ÷ CL =2.5; Hence, CA =2.5 CL. Since CL = Creditors = ₹ 16 lakhs, on substitution, CA = 2.5 x 16 lakhs	₹ 40 lakhs
10	Fixed Assets	Depreciation ÷ Depreciation Rate =₹ 5 lakhs ÷ 20% — Net Block =Gross Block – Depreciation = ₹ 50 lakhs – ₹ 10 lakhs = ₹ 40 lakhs	₹ 50 lakhs

4. (Answer any two)

(a) State the benefits of following Self Balancing System. [4]

Answer:

Following are the benefits of following Self Balancing System:

(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.

(b) The balance on the Sales Ledger Control Account of Adbhut Ltd. on Sept. 30, 2014 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 ₹460 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 Amrit for ₹400 had been entered once in the Day Book but posted to his account twice.

(iv) ₹90 Discount Allowed to Mihir had been correctly recorded and posted in the books. This sum had been subsequently disallowed, debited to Mihir's account, and entered in the discount received column of the Cash Book.

You are required to give the journal entries, where necessary, to rectify these errors.

[4]

Answer:

Journal

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
2014 Sept. 30				
	₹460 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
	Amrit'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.)		90 90	 90 90

(c) Prepare a Sales Ledger Adjustment Account in the General Ledger, for the year ended 31st March, 2013 from the following information:

Particulars	₹	Particulars	₹
Customers' Account debit balance as on 01.04.2012	**2,300**	**Goods returns by debtors**	**2,000**
Customers' Account credit balance as on 01.04.2012	**200**	**Cash discount allowed to debtors**	**600**
Suppliers' Account credit balance as on 01.04.2012	**4,000**	**Cash discount received from creditors**	**130**
Suppliers' Account debit balance as on 01.04.2012	**540**	**Trade discount received from the suppliers**	**8,000**
Credit sales during the year	**29,400**	**Bad debts written- off during the year**	**400**
Credit purchases during the year	**27,800**	**Bad debts recovered during the year**	**80**
Cash sales during the year	**22,600**	**Transfer from creditors ledger to debtors ledger**	**240**
Cash Purchases during the year	**5,800**	**Bills receivable dishonoured**	**320**

Cheques received from credit customers	**18,000**	**Bills payable dishonoured**	**180**
Cash received from credit customers	**2,000**	**Cheqes recd from debtors returned dishnoured**	**750**
Cheques issued to the creditors during the year	**21,000**	**Cheqes issued to creditors returned dishnoured**	**290**
Gods returned to the creditors	**1,400**	**Customers' Account credit balance as on 31.03.2013**	**310**
Bills payable accepted during the year	**1,800**	**Supplier's Account debt balance as on 31.03.2013**	**420**
Bills received during the year	**1,500**		

[4]

Answer:

In the General Ledger of ………..
Sales Ledger adjustment Account

Dr. **Cr.**

Date	Particulars	₹	Date	Particulars	₹
1.04.12	To Balance b/d	2,300	01.04.12	By Balance b/d	200
31.03.13	To General Ledger Adjustment A/c:		31.03.13	By General Ledger Adjustment A/c:	
	Credit sales	29,400		Cheque received	18,000
	Bills receivable (dishonoured)	320		Cash received	2,000
	Cheque dishonoured	750		Bill receivable	1,500
				Sales return	2,000
				Discount allowed	600
31.03.13	To Balance c/d	310		Bad debts	400
				Transfer	240
			31.03.13	By Balance c/d	8,140
		33,080			33,080

5. **(Answer any two)**

(a) Discuss the treatment of costs incurred during the research phase of an Internally Generated Computer Software. [4]

Answer:

Internally generated computer software for internal use is developed or modified internally by the enterprise solely to meet the needs of the enterprise and at no stage it is planned to sell it.
The stages of development of internally generated software may be categorized into the following two phases:

i. **Preliminary project stage. i.e., the research phase.**
ii. **Development stage.**

Preliminary project stage. i.e., the research phase.

At the preliminary project stage the internally generated software should not be recognized as an asset. Expenditure incurred in the preliminary project stage should be recognized as an expense when it is incurred. The reason for such a treatment is that at this stage of the software project an enterprise cannot demonstrate that an asset exists from which future economic benefits are probable.

(b) 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. [4]

Answer:

As per Para 9.2 of AS-9 on Revenue Recognition, where the ability to assess the ultimate collection with reasonable certainty is lacking at the time of raising any claim, e.g., for escalation of price, export incentives, interest etc., revenue recognition is postponed to the extent of uncertainty involved. In such cases, it may be appropriate to recognize revenue only when it reasonably certain that the ultimate collection will be made.
Thus, 'Sale and other income, should be reduced by ₹400 lakhs with equivalent credit to Royalty receivable account.
Alternatively, Para 9.3 of AS-9 may be applied after making reasonable assumption as to the timing of uncertainty. According to Para 9.3, of AS-9 when the uncertainty relating to collectability arises subsequent to the time of sale or the rendering of the service, it is more appropriate to make a separate provision to reflect the uncertainty than to adjust the amount of revenue originally recorded.

(c) Write a notes on "Costs Incurred in Securing a Contract". [4]

Answer:

Contract Costs include the costs attributable to a Contract for the period from the date of securing the Contract to the final completion of the Contract.

Examples: Expenses / Costs incurred in securing the Contract include - (i) Field Work Expenses, (ii) Liaison Expenses, (iii) Cost of Tender Forms and non-refundable fees if any.

Costs that relate directly to a Contract and which are incurred in securing the Contract are also included as part of the Contract costs if - (i) they can be separately identified and measured reliably and (ii) it is probable that the Contract will be obtained.

When Costs incurred in securing a Contract are recognised as an expense in the period in which they are incurred, they are not included in Contract Costs when the Contract is obtained in a subsequent period.

6. (Answer any two)

(a) A firm sells goods on sale or return basis, customers, having the choice of returning the goods within a month. During April 2013, the following are the details of the goods sent:

2013 April	Customer	Value ₹	Proforma Invoice No.
2	A	10,000	004
4	B	18,000	007
16	C	25,000	023
20	D	8,000	032

24	**E**	**21,000**	**041**
28	**F**	**30,000**	**049**

Within the stipulated time A and C returned the goods while B, D and E signified that they have accepted the goods. Show the following accounts in the books of the firm: sale on Approval Account and customers for sale on Approval Account as on 15th May 2013. [4+4=8]

Answer:

In the books of ………
Sale on Approval Account

Dr. **Cr.**

Date	**Particulars**	₹	**Date**	**Particulars**	₹
2013			**2013**		
May	To customers for sale on		April	By Customers for sale on	
	Approval A/c	10,000		Approval A/c	
2	-Returned by A	18,000	2	- A	10,000
4	- Sold to B	25,000	4	- B	18,000
15	- Returns by C	8,000	16	- C	25,000
	- Sold to D	21,000	20	- D	8,000
	-Sold to E	30,000	24	- E	21,000
31	To Balance c/d		28	- F	30,000
		1,12,000			1,12,000

Customers for sale on Approval Account

Dr. **Cr.**

Date	**Particulars**	₹	**Date**	**Particulars**	₹
2013			**2013**		
April	To sale on Approval A/c		May	By Sale on Approval A/c	
2	- A	10,000		- Returned by A	10,000
4	- B	18,000	2	- Sold to B	18,000
16	- C	25,000		- Returned by C	25,000
20	- D	8,000	4	- Sold to D	8,000
24	- E	21,000	15	- Sold to E	21,000
28	- F	30,000		By Balance c/d	30,000
			31		
		1,12,000			1,12,000

(b) Khan draws a bill for ₹ 2,40,000 and Sumit accepts the same for mutual accommodation of both of them to the extent of Khan 2/3rd and Sumit 1/3rd. Khan discounts it with bank for ₹ 2,25,600 and remits 1/3rd share to Sumit. Before the due date, Sumit draws another bill for ₹ 3,36,000 on Khan in order to provide funds to meet the first bill on same sharing basis. The second bill is discounted at ₹ 3,26,400. With these proceeds, the first bill is settled and ₹57,600 were remitted to Khan. Before the due date of the second bill, Khan becomes insolvent and Sumit receives a dividend of only 50 paise in a rupee in full settlement.

Pass journal entries in the books of Khan. [8]

Answer:

In case of accommodation bills, the proceeds of discounting are shared by parties as agreed. The discounting charges are also shared in agreed proportion. Here, the ratio between Khan and Sumit is given as two-thirds and one-third. The first bill of ₹ 2,40,000 is discounted at ₹ 2,25,600 which means the discounting charges are ₹ 14,400. The share of each one is:

	1st Bill		2nd Bill	
	Proceeds (₹)	**Discount (₹)**	**Proceeds (₹)**	**Discount (₹)**
Khan (2/3rd)	1,50,400	9,600	2,17,600	6,400
Sumit (1/3rd)	75,200	4,800	1,08,800	3,200
Total	2,25,600	14,400	3,26,400	9,600

Further, as Khan has become insolvent, the amount due to Sumit is settled at 50% of total. To calculate this amount, it's necessary to post all transactions to Sumit's account and arrive at the balance.

In the Books of Khan
Journal Entries

Date	Particulars		L.F.	Dr. (₹)	Cr. (₹)
	Bills Receivable A/c	Dr.		2,40,000	
	To, Sumit's A/c				2,40,000
	(Being bill drawn on Sumit)				
	Bank A/c	Dr.		2,25,600	
	Discount A/c	Dr.		14,400	
	To, Bills Receivables A/c				2,40,000
	(Being discounting of bil)				
	Sumit's A/c	Dr.		80,000	
	To, Bank A/c				75,200
	To, Discount A/c				4,800
	(Being 1/3rd proceeds paid to Sumit)				
	Sumit's A/c	Dr.		3,36,000	
	To, Bills payable A/c				3,36,000
	(being acceptance of bill)				
	Bank A/c	Dr.		57,600	
	Discount A/c	Dr.		6,400	
	To, Sumit's A/c				64,000
	(Being proceeds of discounting 2nd bill)				

	Bills Payable A/c Dr. To, Sumit's A/c (Being dishonour of bill)		3,36,000	 3,36,000
	Sumit's A/c Dr. To, Bank A/c To, Deficiency A/c (Being payment of 50% & balance proved to be bad)		2,24,000	 1,12,000 1,12,000

(c) Kush and Lav entered into a joint venture for purchase and sale of electronic goods, sharing profits and losses in the ratio of 3:2. They also agreed to receive 5% commission on their individual sales and the following information was extracted from the records:

July 1, 2013: Kush purchased goods worth ₹1,90,000 financed to the extent of 80% out of this funds and balance by loan from his father Ramanad.

August 1, 2013: Kush sent goods costing ₹1,70,000 to Lav and paid ₹1,410 as freight. Lav paid ₹13,410 to Kush.

October 1, 2013: Lav sold all the goods sent to him. Kush paid the loan taken from his father, including interest of ₹350.

All sales, by either party, were made at a uniform profit of 40% above cost. On November 30, 2013, they decided to close the venture by transferring the balance of goods unsold, lying with Kush at a cost of ₹9,000, to a wholesale dealer.

You are required to prepare the Memorandum Joint Venture Account, and Joint Venture with Kush in the books of Lav and Joint Venture with Lav in the books of Kush. They disclosed that goods worth ₹4,000 were taken personally by Kush at an agreed price of ₹5,000. [8]

Answer:

Memorandum Joint Venture Account

Dr. **Cr.**

Date	Particulars	Amount ₹	Date	Particulars	Amount ₹
2013 July 1	To Kush - Purchaser 1,52,000 Loan – Purchaser 38,000	 1,90,000	2013 Oct. 1	By Lav – Sale Proceeds (₹1,70,000 + 40%)	 2,38,000
			Nov. 30	,, Kush – Stock taken	5,000
			,,	,, Kush – Sale Proceeds (₹1,90,000 – ₹1,70,000 – ₹9,000 – ₹4,000) = ₹7,000 + 40%	9,800
Aug. 1	,, Kush – Freight	1,410			
Oct. 1	,, Kush – Interest on Loan	350			
,,	,, Lav – commission (@ 5% on ₹2,38,000)	11,900	,,	,, Stock – (Transferred to wholesale dealer)	9,000
Nov. 30	,, Kush – Commission (@ 5% on ₹9,800)	490			
,,	,, Profit on venture:				

	Kush - $\left(\frac{3}{5}\right)$ 34,590 Lav - $\left(\frac{2}{5}\right)$ 23,060	57,650			
		2,61,800			2,61,800

In the Books of Kush
Joint Venture with Lav

Dr. **Cr.**

Date	Particulars	Amount ₹	Date	Particulars	Amount ₹
2013			2013		
July 1	To Bank A/c (Purchase of Goods)	1,90,000	Aug. 1	By Cash A/c	13,410
Aug. 1	,, Bank A/c (freight)	1,410	Nov. 30	,, Stock taken	5,000
Oct. 1	,, Bank A/c (Interest on Loan)	350	,,	,, Stock transferred to wholesale dealer	9,000
Nov. 30	,, Commission	490	,,	,, Bank (Sale Proceeds)A/c	9,800
,,	,, Share of Profit	34,590	,,	,, Bank (Final settlement)A/c	1,89,630
		2,26,840			2,26,840

In the Books of Lav
Joint Venture with Kush

Dr. **Cr.**

Date	Particulars	Amount ₹	Date	Particulars	Amount ₹
2013			2013		
Oct. 1	To Commission	11,900	Oct. 1	By Bank (Sale Proceeds)A/c	2,38,000
,,	,, Cash A/c	13,410			
Nov. 30	,, Share of Profit	23,060			
,,	,, Bank (Final settlement)	1,89,630			
		2,38,000			2,38,000

7. (Answer any two)

(a) (i) Given below are details of interest on advance of a Commercial Bank as on 31.03.2014:

(₹ 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 2014. [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

(ii) Best Bank Ltd. provides you the following information:

	₹ (in lakhs)
Bills for Collection (as on 1.4.2013)	**14.00**
During the year 2013-14	
Bills received for Collection	**129.00**
Bills Collected	**94.00**
Bills dishonoured and returned	**11.01**

Required: Prepare Bills for Collection (Assets) A/c and Bills for Collection (Liabilities) A/c. [4]

Answer:

Bills for Collection (assets) Account

Dr. **Cr.**

Date	Particulars	₹	Date	Particulars	₹
01.04.13	To Balance b/d To Bills for Collection (Liabilities) A/c	14.00 129.00	2013-14 31.03.14	By Bills for Collection (Liabilities) A/c By Bills for Collection (Liabilities) A/c By Balance c/d	94.00 11.01 37.99
		143.00			143.00

Bills for Collection (liabilities) Account

Dr. **Cr.**

Date	Particulars	₹	Date	Particulars	₹
20.13-14 31.03.14	To Bills for Collection (Assets) A/c To Bills for Collection (Assets) A/c To Balance c/d	94.00 11.01 37.99	01.04.13	By Balance b/d By Bills for Collection (Assets) A/c	14.00 129.00
		143.00			143.00

(b) (i) Write a note on — Accounting for grant received under Accelerated Power Development and Reforms Programme (APDRP). [6]

Answer:

Accounting for grant received under Accelerated Power Development and Reforms Programme (APDRP):

- Grant received under the Accelerated Power Development and Reforms Programme (APDRP) of the Ministry of Powre, Government of India towards capital expenditure. is treated as capital receipt and accounted as Capital Reseve and subsequently adjusted as income (by transfer to the Statement of Profit and Loss) in the same proportion as the depreciation written off on the assets acquired out of the Grant.
- The depreciation for the year debited to be Statement of Profit and Loss on asset acquired out of grant match against portion of grant transferred from Capital Reserve.
- The unadjusted balance of capital reserve is disclosed under the head, Reseves Surplus in the Balance Sheet.
- In the Cash Flow Statement grant received under APDRP is reported under Financing Acitivty.
- At any time if the ownership of the assets acquired, out of the grants, vest with the Government, the grants (Capital Reserve) are adjusted in the carrying cost of such assets.
- The grant-in-aid assistance received by the utility under APDRP and its utilisation shown under the head Capital Expenditure made during the year is not considered for calculation of Annual Revenue Requirement (ARR) of the utility for the year.

(ii) Discuss the way of System Optimisation involved in Optimised Depreciated Replacement Cost Method. [2]

Answer:

System Optimisation is done to measure the most cost effective way of delivering service, in terms of capacity and quality to meet the requirements.

This involves three levels:

(i) Capacity Optimisation both in size and number

(ii) Optimisation of spares

(iii) Optimisation of unit costs.

(c) From the following figures appearing in the books of Fire Insurance division of Swasti General Insurance Company, show the amount of claim as it would appear in the Revenue Account for the year ended 31st March, 2014:

Particulars		Direct Business ₹	Re-Insurance ₹
Claim paid during the year		**70,05,000**	**10,50,000**
Claim Payable —	**1st April, 2013**	**11,44,500**	**1,30,500**
	31st March, 2014	**12,18,000**	**79,500**
Claims received		**-**	**3,54,000**
Claims Receivable —	**1st April, 2013**	**-**	**98,000**
	31st March, 2014	**-**	**1,69,500**

Expenses of Management (includes ₹ 52,500 Surveyor's fee and ₹ 67,500 Legal expenses for settlement of claims)	**3,45,000**	**-**

[2+6=8]

Answer:

Swasti General Insurance Company (Abstract showing the amount of claims)

Particulars	₹'000	₹'000
Claims less Re-insurance :		
Paid during the year	7,821.00	
Add: Outstanding claims at the end of the year	1,128.00	
	8,949.00	
Less: Outstanding claims at the beginning of the year	1,177.00	7,772.00

Working Notes:

	Particulars	₹'000	₹'000
1.	Claims paid during the year		
	Direct business	7,005.00	
	Reinsurance	1,050.00	8,055.00
	Add: Surveyor's fee	52.50	
	Legal expenses	67.50	120.00
			8,175.00
	Less : Claims received from re-insurers		354.00
			7,821.00
2.	Claims outstanding on 31st March, 2014		
	Direct business	1,218.00	
	Reinsurance	79.50	1,297.50
	Less : Claims receivable from re-insurers		169.50
			1,128.00
3.	Claims outstanding on 1st April, 2013		
	Direct business	1,144.50	
	Reinsurance	130.50	1,275.00
	Less : Claims receivable from re-insurers		98.00
			1,177.00