Paper 5- Financial Accounting

The following table lists the learning objectives and the verbs that appear in the syllabus learning aims and examination questions:

	Learning objectives	Verbs used	Definition
LEVEL B	KNOWLEDGE What you are expected to know	List	Make a list of
		State	Express, fully or clearly, the details/facts
		Define	Give the exact meaning of
	COMPREHENSION What you are expected to understand	Describe	Communicate the key features of
		Distinguish	Highlight the differences between
		Explain	Make clear or intelligible/ state the meaning or purpose of
		Identity	Recognize, establish or select after consideration
		Illustrate	Use an example to describe or explain something
	APPLICATION How you are expected to apply your knowledge	Apply	Put to practical use
		Calculate	Ascertain or reckon mathematically
		Demonstrate	Prove with certainty or exhibit by practical means
		Prepare	Make or get ready for use
		Reconcile	Make or prove consistent/ compatible
		Solve	Find an answer to
		Tabulate	Arrange in a table
	ANALYSIS How you are expected to analyse the detail of what you have learned	Analyse	Examine in detail the structure of
		Categorise	Place into a defined class or division
		Compare and contrast	Show the similarities and/or differences between
		Construct	Build up or compile
		Prioritise	Place in order of priority or sequence for action
		Produce	Create or bring into existence

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 ×10=20]

(i) Mugdha Ltd. purchased a machine of ₹ 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

(ii) 1,000 kg of apples are consigned to a wholesaler, the cost being ₹3 per kg plus ₹400 of freight, it is known that a loss of 15% is unavoidable. Compute the cost of per kg apple.

Answer:

$$\text{Cost of per Kg Apple} = \frac{(₹3\times1{,}000)+₹400}{1{,}000\times(100\%-15\%)} = \frac{₹3{,}000+₹400}{850} = ₹4$$

(iii) List the constituents of Central Electricity Regulatory Commission (CERC).

Answer:

The Central Commission shall consist of the following members:

- A chairperson and three members;
- The Chairperson of the Authority who shall be the Member, ex-officio.

(iv) Given below are details of interest on advance of a Commercial Bank as on 31.03.2015:

(₹ 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 2015.

Answer:

As per RBI Circular, interests on non-performing assets are considered on Cash Basis whereas interests on performing assets are considered on Accrual Basis.

Statement Showing the Recognition of Income

Particulars	Amount ₹	Amount ₹
A. Interest on Term Loans		
(i) Performing Assets	720	
(ii) 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

(v) Sales was ₹60,00,000 in the previous year.
Gross Profit is 25% on Sales.
The Company expects 20% Sales increment in sales volume during this year.
Compute the Cost of goods Sold.

Answer:

Sales in previous year was ₹60,00,000
∴ Sales of this year is ₹72,00,000
∴ Cost of goods sold = Sales – Gross Profit = ₹72,00,000 - ₹18,00,000 = ₹54,00,000.

(vi) Kapil Ltd. acquired 2,000 Equity Shares of Kumar Ltd. on cum-right basis at ₹ 75 per Share. Subsequently, Kumar Ltd. made a Rights issue of 2 : 1 at ₹ 60 per Share, which was subscribed for by Kapil Ltd. Calculate cost of total investments at the year end.

Answer:

Cost of Original Holding = 2,000 Shares x ₹ 75	₹ 1,50,000
Add: Cost of Rights Shares Subscribed = 1,000 Shares x ₹ 60	₹ 60,000
Total Cost of Investment at year-end (3,000 Shares)	₹ 2,10,000

(vii) The following information has been extracted from the books of a lessee for the year 2014-2015:

Particulars	Amount(₹)
Shortworkings lapsed	**16,000**
Shortworkings recovered	**24,000**
Actual royalty based on output	**60,000**

Compute the minimum rent.

Answer:

Minimum rent = Actual royalty – Shortworkings recovered = ₹60,000 - ₹24,000 = ₹36,000.

(viii) AB Ltd has signed at 31st December, the balance Sheet, a contract where the Total Revenue is estimated at ₹30 Crores and Total Cost is estimated at ₹40 Crores. No work began on the contract. Is the Contractor required to give any accounting effect for the year ended 31st December?

Answer:

There is an expected loss pf ₹10 Crors (₹40 - ₹30) Crores. Such loss should be recognised in the Profit and Loss Statement as per AS – 7, even though work has not commenced.

(ix) List any two advantages of Self Balancing System.

Answer:

Following are the advantages of Self-Balancing System:

- If ledgers are maintained under self-balancing system it becomes very easy to locate errors.
- This system helps to prepare interim account and draft final accounts, as a complete trial balance can be prepared before the abstraction of individual personal ledger balances.

(x) The cash book shows a balance of ₹11,000 which was different from the pass book balance. The differences is found to be due to a credit entry in pass book amounting to ₹2,000 for direct payment by a customer and a debit of ₹250 for bank charges on collection of outstation cheques and other services. What would be the balance as per bank Pass Book?

Answer:

Balance as per Pass Book will be ₹(11,000 + 2,000 – 250) i.e. ₹12,750.

2. (Answer any two)

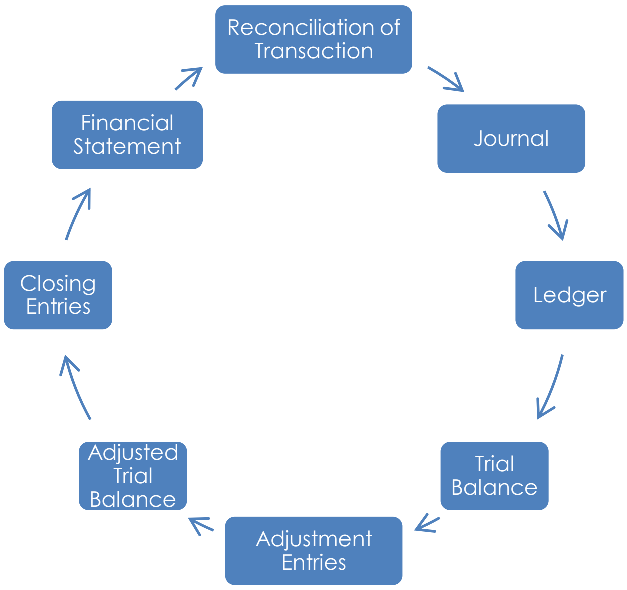
(a) Write a note on accounting Life Cycle. [4]

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.

(a) Mr. Mohan sold goods on credit to various customers. Details related to one of the customer, Mr. Kamal, is as under:

(i) Goods sold on credit ₹ 8,75,000

(ii) Payment received from customer in cash ₹ 1,75,000 and by cheques ₹ 4,02,500. Out of cheques received, a cheque of ₹ 66,500 was dishonoured by bank.

(iii) Customer accepted two Bills of ₹33,250 and ₹ 92,750 for 2 months and 3 months respectively.

(iv) Credit note raised against the customer ₹ 5,950 for excess payment charged against one of the consignment.

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

Answer:

Receivable from Mr.Kamal - Reconciliation Statement

Partic	Amount (₹)
Credit Sales during the period	8,75,000
Less: Payment received in cash	1,75,000
Less: Payment received by cheque less dishonored cheque (4,02,500 -66,500)	3,36,000
Less: Bills Receivable accepted by Customer, yet to be matured (33,250 +92,750)	1,26,000
Less : Adjustment of Credit Note raised	5,950
Net Receivable from Customer	**2,32,050**

Note: This reconciliation statement can be made against gross block of customers/debtors. However, it is advisable to ascertain individual reconciliation statements.

(b) Mangaldeep Ltd. closed their books on 31st December, 2014. On that date they detected that —

(i) Material from store ₹9,000 and wages ₹3,500 have been used in making loose tools for use in own factory. But no adjustments were made in the books.

(ii) ₹45,000 paid in instalments to an injured worker, pending the settlement of workmen's compensation claim against the insurance company were debited to Wages Account.

(iii) Goods for ₹95,000 purchased from Kumar on 26th December, 2014 were entered in the Purchase Day Book but the delivery of the goods was not received before 5th January,2015.

(iv) During the year certain investments were sold for ₹85,000 at a profit of ₹5,000 but passed through the sales account.

Pass the Journal Entries to rectify the above errors. [4]

Answer:

Rectification of Errors

Date	Particulars	L.F.	Dr. Amount ₹	Cr. Amount ₹
31.12.2014	Loose Tools A/c Dr. To, Purchase A/c To, Wages A/c [Material and wages utilized for making loose tools now adjusted]		12,500	 9,000 3,500
	Workmen's Compensation A/c Dr. To, Wages A/c (Instalment paid to an injured worker debited to Wages A/c, now rectified)		45,000	 45,000
	Good-in-transit A/c Dr. To, Purchases A/c (Adjustment made for goods purchased but delivery yet to be received)		95,000	 95,000
	Sales A/c Dr. To, Investments A/c		85,000	 80,000

	To, Profit on Sale of Investment A/c (Investments sold at a profit but passed through Sales Account, now rectified)			5,000

3. **(Answer any Two)**

(a) (i) From the following details find out the amount to be debited to Profit and Loss A/c as fresh provision for doubtful debts during 2014-15.
Debtors was ₹ 30,000 as on 31.03.2015; Bad debt during the year ₹ 1,500; Provision for bad debts as on 01.04.2014 ₹ 2,000; Provision for doubtful debts to be kept at 5% of total debtors. [3]

Answer:

Provision for Bad Dept is ₹30,000×5% = ₹1,500

Dr.	Provision for Bad Debts Account		Cr.
Particulars	**Amount (₹)**	**Particulars**	**Amount (₹)**
To, Bad Debt A/c	1,500	01.04.2014 By, Balance c/d	2,000
31.03.2015 To, Balance c/f	1,500	31.03.2015 By, Profit and Loss A/c **[Balancing Figure]**	1,000
	3,000		3,000

(a) (ii) P, Q and R were in partnership sharing profits and losses in the ratio of 3 : 2 : 1. The Balance Sheet as on 31.3.2014 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 1.9.2014 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 1.10.2011 repairs to machinery for ₹ 6,000 had been wrongly debited to the Machinery Account, and on 1.4.2012 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:

2010-11 ₹20,000; 2011-12 ₹24,000; 2012-13 ₹32,000; 2013-14 ₹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]

Answer:

Statement showing computation of the amount to be paid to the retiring partner:

Particulars	Amount(₹)
Capital	60,000
Share of Loss on revaluation	(808)
Proportionate share of goodwill [₹52,880 × $\frac{3}{6}$]	26,440
Proportionate share of last year's profit - [₹36,693 × $\frac{3}{6} \times \frac{5}{12}$]	7,644
Drawings	(30,000)
Interest on Drawings[₹30,000 × $\frac{6}{100} \times \frac{5}{12} \times \frac{1}{2}$]	(375)
Amount to be paid to the retiring partner	**62,901**

Workings:

A.

Dr. Revaluation Account Cr.

Date	Particulars	₹	Date	Particulars	₹
	To,Motor Car A/c	8,000		By, Machinery A/c	14,617
	To,Furniture A/c	5,000			
	To,Partner's Capital A/c (P-₹ 808; Q-₹ 539; R-₹ 270)	1,617			
		14,617			**14,617**

B.

Ascertainment of Adjusted Profits

	2010-11 ₹	2011-12 ₹	2012-13 ₹	2013-14 ₹
Profits without adjustment	20,000	24,000	32,000	36,000
Less: Repairs previously capitalised		(–) 6,000		
Add: Depreciation wrongly charged		(+) 300	(+) 570	(+) 513
Less: Sale of Furniture wrongly credited to Sales			(–) 800	
Less: Loss on sale of Furniture not recorded (₹ 2,000 – 800)			(–) 1,200	
Add: Depreciation on Furniture wrongly provided			(+) 200	(+) 180
Adjusted Profits	20,000	18,300	30,770	36,693

C. Ascertainment of the Value of Goodwill and its Adjustment

Aggregate adjusted profits for 4 years: ₹ 1,05,763; Average Profits — ₹1,05,763 / 4 = ₹ 26,440.

Goodwill at 2 years' purchase of average profit = ₹ 52,880 (₹ 26,440 × 2).

(b) (i) Indira Electronics sold a colour TV set to X on hire purchase system on 1.1.2015 for ₹ 36,800. X paid ₹ 8,000 on the same date to receive the delivery of the TV set and agreed to pay the balance in 12 equal monthly installments, each instalment becoming due on the last date of each month. X paid six instalments in time but failed to pay other installments. In September 2015 (before the monthly instalment has become due) the seller repossessed the TV set. The repossessed set was valued at ₹ 14,000.

Show the necessary ledger accounts (on the basis of Stock and Debtors system) in the books of Capital Electronics. [8]

Answer:

In the books of Indira Electronics

Dr. (i) Hire Purchase Stock Account Cr.

Particulars	₹	Particulars	₹
To Balance b/d	–	By Hire Purchase Debtors A/c	27,200
To Goods Sold on H. P. A/c	36,800	By Goods Repossessed A/c (1200×4) (Instalment not yet due)	9,600
		By Balance c/d	–
	36,800		36,800

Dr. (ii) Hire Purchase Debtors Account Cr.

Particulars	₹	Particulars	₹
To Balance b/d	–	By Cash A/c/Bank A/c [8,000 + (2,400 × 6)]	22,400
To Hire Purchase Stock A/c	27,200	By Goods Repossessed A/c (2,400 × 2) (Instalment due but not paid)	4,800
		By Balance c/d	–
	27,200		27,200

Dr. (iii)Goods Repossessed Account Cr.

Particulars	₹	Particulars	₹
To Hire Purchase Stock A/c	9,600	By Hire Purchase Adjustment A/c	400
To Hire Purchase Debtors A/c	4,800	By Balance c/d	14,000
	14,400		14,400

Dr. (iv) Hire Purchase Adjustment Account(extracts) Cr.

Particulars	₹	Particulars	₹
To Goods Repossessed A/c	400		

(b) (ii) YYY (HG) Ltd. carried on a retail business opened a branch X on 1st April, 2015 where all sales were on credit basis. All goods required by the branch were supplied from the head office and were invoiced to the branch at 10% above cost. The following were the transactions:

	April	May	June
	₹	₹	₹
Goods sent to Branch (Cost to H.O)	**40,000**	**50,000**	**60,000**

Sales as shown by the branch monthly report	**38,000**	**42,000**	**55,000**
Cash received from Debtors and remitted to H.O.	**20,000**	**51,000**	**35,000**
Returns to H.O. (Cost to Branch)	**1,200**	**600**	**2,400**

The stock of goods held by the branch on June 30, amounted to ₹ 53,400 at invoice price to branch. Record these transactions in the Head Office books, showing balances as on 30th June, 2015 and the branch gross profit for the three months ended on that date. [4]

Answer:

Dr. X Branch Account in the Books of Head Office Cr.

Particulars	₹	Particulars	₹
To Goods Sent to Branch A/c		By Bank A/c (remittance)	1,06,000
(₹ 1,50,000 × 10/110)	1,65,000	By Goods Sent to Branch A/c	4,200
To Stock Reserve A/c		By Goods Sent to Branch A/c	
(₹ 53,400 × 10/110)	4,855	[(₹ 1,65,000 – ₹ 4,200) × 10/110]	14,618
To Net Profit t/f to General		By Balance c/d	
P & L A/c	37,363	Debtors (₹1,35,000 – ₹1,06,000)	29,000
		Stock	53,400
	2,07,218		2,07,218

(c) The Income and Expenditure Account of the Mumbai Club for the year 2014 is:

		₹			₹
To	**Salaries**	**1,20,000**	**By**	**Subscription**	**1,70,000**
"	**Printing & Stationery**	**6,000**	**"**	**Entrance Fees**	**4,000**
"	**Postage**	**500**	**"**	**Contribution of Dinner**	**36,000**
"	**Telephone**	**1,500**			
"	**General Expenses**	**12,000**			
"	**Interest and Bank Charges**	**5,500**			
"	**Audit Fees**	**2,500**			
"	**Annual Dinner Expenses**	**25,000**			
"	**Depreciation**	**7,000**			
"	**Surplus**	**30,000**			
		2,10,000			**2,10,000**

The account has been prepared after the following adjustments:

	₹		₹
Subscription outstanding 31.12.2013	**16,000**	**The club owned a building since 2013**	**1,90,000**
Subscription outstanding 31.12.2014	**18,000**	**The club had sports equipments on**	
Subscription received in advance		**31.12.2013 value at**	**52,000**
On 31.12.2013	**13,000**	**At the end of the year, after depreciation**	
Subscription received in advance		**of ₹ 7,000, equipment amounted to**	**63,000**
on 31.12.2014	**8,400**	**In 2013 the club had raised a Bank**	
Salaries outstanding 31.12.2013	**6,000**	**Loan which is still unpaid**	**30,000**
Salaries outstanding 31.12.2014	**8,000**	**Cash in hand on 31.12.2014**	**28,500**
Audit Fees from 2013 paid during 2014	**2,000**	**Audit Fees for 2014 not paid**	**2,500**

Prepare the Receipts and Payments Account of the Club for 2014 and the Balance Sheet as on 31st December 2014. All workings should form part of your answer. [12]

Answer:

In the books of Mumbai Club

Dr. Receipts and Payments Account for the year ended 31st December 2014 Cr.

Particulars		₹	Particulars		₹
To	Balance b/d (*bal. fig.*)	13,600	By	Salaries	1,18,000[C]
"	Subscription	1,63,400[B]	"	Printing & Stationery	6,000
"	Entrance Fees	4,000	"	Postage	500
"	Contribution of Dinner	36,000	"	Telephone	1,500
			"	General Expenses	12,000
			"	Audit Fees	2,000
			"	Annual Dinner Expenses	25,000
			"	Interest and Bank Charges	5,500
			"	Sports Equipments	18,000
			"	Balance c/d	28,500
		2,17,000			2,17,000

Balance Sheet as at 31st December, 2014

Liabilities	₹	₹	Assets	₹	₹
Capital Fund	2,20,600		Building		1,90,000
Add: Surplus	30,000	2,50,600	Sports Equipment		
Bank Loan		30,000	Opening Balance	52,000	
Creditors for Expenses			Additions	18,000[D]	
Salaries	800			70,000	
Audit Fees	2,500	10,500	Less: Depreciation	7,000	63,000
Subscription Received in Adv.		8,400	Cash in hand		28,500
			Subscription Due		18,000
		2,99,500			**2,99,500**

Workings:

A. Balance Sheet as at 31st December 2013

Liabilities	₹	Assets	₹
Capital Fund (*bal. fig.*)	2,20,600	Building	1,90,000
Bank Loan	30,000	Sports Equipment	52,000
Outstanding Salaries	6,000	Outstanding Subscription	16,000
Outstanding Audit Fees	2,000	Cash	13,600
Subscription Received in Advance	13,000		
	2,71,600		**2,71,600**

B. Subscription Received

	₹
Subscription (As per Income & Expenditure A/c)	1,70,000
Add: Outstanding on 31.12.2013	16,000
	1,86,000
Less: Outstanding for 2014	18,000
	1,68,000
Add: Received in Advance for 2015	8,400
	1,76,400
Less: Received in Advance for 2013	13,000
	1,63,400

C. Salaries Paid

	₹

Salaries (As per Income & Expenditure A/c) *Less:* Outstanding for 2014	1,20,000 8,000
 Add: Outstanding for 2013	1,12,000 6,000
	1,18,000

D. Purchase of Sports Equipment

	₹
(₹ 63,000 + ₹ 7,000 – ₹ 52,000)	18,000

4. (Answer any two)

(a) Discuss Contra Transaction. [4]

Answer:

Sometimes it may happen that debtors ledger shows a credit balance and creditor ledger shows a debit balance i.e., the adverse balance of debtors ledger and creditors ledger. Usually, credit, balance in debtors ledger may happen on account of advance taken from creditors or allowances given to customers for different products after closing the accounts. Similarly, debit balance in creditors ledger may appear on account of excess payment made or goods returned to creditors after closing the accounts etc. Thus, these contra transactions are to be adjusted. But credit balance in one ledger must not be set off against debit balance of another ledger. These should be treated separately.

(b) From the following information, prepare Total Debtors Account for the year ended on 31st March, 2015.

	₹		₹
Trade Debtors as on 1.4.2014	**1,00,000**	**Cash received from Debtors**	**1,00,000**
Credit Sales	**6,10,000**	**Cheque received from Debtors**	**2,00,000**
Return Inwards	**10,000**	**Bills Receivable drawn**	**3,00,000**
Discount Allowed	**5,000**	**Bad Debts**	**5,000**

[4]

Answer:

Dr. Total Debtors Account Cr.

Date	Particulars	₹	Date	Particulars	₹
01.04.14	To, Balance b/d	1,00,000	2014 -15	By, Return Inwards	10,000
	To, Credit sales	6,10,000		By, Discount Allowed	5,000
				By, Cash A/c	1,00,000
				By, Bank A/c	2,00,000
				By, Bills Receivable A/c	3,00,000
				By, Bad Debts	5,000
				By, Balance c/d	90,000
		7,10,000			7,10,000

(c) Debtors List of ₹2,00,000 includes ₹2,000 owed by A and ₹1,000 by B. Similarly, Creditors List of ₹4,00,000 covers ₹6,000 owed to A and ₹600 to B. Give necessary Journal Entries for the transfer under Sectional Balancing System. [4]

Answer:

Date	Particulars	L.F.	Dr. Amount ₹	Cr. Amount ₹
	A (in Creditors Ledger) Dr. To, A (In Debtors Ledger) (Being transfer of A's A/c from Debtors to Creditor Ledger)		2,000	 2,000
	B (in Creditors Ledger) Dr. To, B (In Debtors Ledger) (Being transfer of B's A/c from Creditors to Debtor Ledger)		600	 600
	Total Creditors A/c Dr. To, Total Debtors A/c (Being reduction in Total Creditors and Total Debtors)		2,600	 2,600

5. (Answer any two)

(a) Write note on Project Accounting. [4]

Answer:

Project Accounting (sometimes referred to as Job Cost Accounting) is the practice of creating financial reports specifically designed to track the financial progress of projects. Project Accounting differs from standard accounting in that it is designed to monitor the financial progress of a project rather than the overall progress of organizational elements. Utilizing Project Accounting provides Project Managers with the ability to accurately assess and monitor project budgets and ensure that the project is proceeding on budget that helps to address any cost overruns and revise budgets if necessary.

Projects can last from a few days to a number of years. During this time, there may be numerous budget revisions. It may also be part of a larger overall project.

Costs and revenues that are allocated to projects may be further subdivided into a work breakdown structure (WBS). In utilizing Project Accounting, you have the flexibility to report at any such level and can also compare historical as well as current budgets.

Project Accounting allows companies to accurately assess the ROI of individual projects and enables true performance measurement. Project Managers are able to calculate funding advances and actual versus budgeted cost variances using Project Accounting. On the other hand Project Accounting can also have an impact on the investment decisions that companies make. Project Accounting System provides crucial feedback that improves the quality of such important decisions.

(b) An amount of ₹9,90,000 was incurred on a contract work upto 31.03.2015. Certificates have been received to date to the value of ₹12,00,000 against which ₹10,80,000 has been received in cash. The cost of work done but not certified amounted to ₹22,500. It is estimated that by spending an additional amount of ₹60,000 (including provision for contingencies) the work can be completed in all respects in another two months. The agreed contract price of work is ₹12,50,000. Compute a conservative estimate of the profit to be taken to the Profit and Loss Account as per AS – 7. [4]

Answer:

As per AS – 7 when the outcome of a construction contract can be estimated reliably, contract revenue and contract costs associated with the construction contract should be recognised as revenue and expenses respectively by reference to stage of completion of the contract activity at the reporting date.

Thus, estimated profit amounting ₹1,88,571 should be recognised as revenue in the Statement of Profit and Loss.

Particulars	₹
Expenditure incurred upto 31.03.2015	9,90,000
Estimated additional expenses (including provision for contingency)	60,000
A. Estimated Cost	10,50,000
B. Contract Price	12,50,000
C. Total estimated profit [(A-B)]	2,00,000
D. Percentage of Completion (9,90,000/10,50,000)×100	94.29%
Computation of estimate of the profit to be taken to Profit and loss Account: = Total estimated profit × (Expenses incurred till 31.03.2015/ Total estimated cost) = 2,00,000 × (9,90,000/10,50,000) = ₹1,88,571.	

(c) Mita Ltd sells agricultural products to its dealers. One of the conditions of sale is that interest is payable at 2% p.m. for delayed payment. Percentage of interest recovered is only 10% on such overdue outstanding due to various reasons. During the financial year, Mita Ltd wants to recognize the entire interest receivable. Do you agree? [4]

Answer:

Interest is incidental to the sales transaction. If at the time of raising the claim of interest, it is unreasonable to expect ultimate collection, Revenue Recognition should be postponed.

Past experience of the Company shows that only 10% of the interest overdue on outstanding is actually recovered.

Conclusion — The Company should not recognize the entire interest receivable. It should be recognized only on cash basis, i.e. receipt basis in the instant case.

6. (Answer any two)

(a) (i) Sarda Gadgets Ltd. sends electric ovens costing ₹ 1,200 each to their customers on Sale or 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 150 ovens at an Invoice Price of ₹ 1,500 each, of which 20 ovens are accepted by customers at ₹ 1,400 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. [4]

Answer:

Books of Sarda Gadgets Ltd.

Date	Particulars	L.F.	Dr. Amount	Cr. Amount
	Sales A/c [20 x ₹ 100] Dr.		2,000	
	To Sundry Debtors A/c			2,000
	[Adjustment made for 20 ovens invoiced at ₹ 1,500 each and included in sales at that price, accepted at ₹ 1,400 each]			

	Sales A/c [{150 - 20} x ₹ 1,500] Dr.		1,95,000	
	To Sundry Debtors A/c			1,95,000
	[130 ovens invoiced at ₹ 1,500 each yet to be confirmed and adjusted]			
	Stock on Sale or Return A/c Dr.		1,56,000	
	To Trading A/c [130 x ₹ 1,200]			1,56,000
	[Unconfirmed goods lying with customers included in Stock -at Cost Price]			

(a)(ii) There is a fire in the godown of Pataka Ltd. on 1.7.2014, stock worth ₹30,000 was saved. The goods were insured and fully covered.

- An average gross profit of 20% on sale is maintained by the company.

- The stock is valued at 10% above cost.

The purchases and sales for first 6 months of the year were ₹ 2,10,000 and ₹4,50,000, respectively; stock on January 1, 2014 was ₹1,48,500. The wages for that period amounted to ₹90,000. Find out the cost of the stock burnt.

- Goods sold on approval but lost by fire ₹6,000. [4]

Answer:

In the books of Pataka Ltd.

Dr. **Memorandum Trading Account** for the 6 months ended 30th June 2014 **Cr.**

Particulars	Amount ₹	Particulars	Amount ₹
To Opening Stock $(₹1,48,500 \times \frac{100}{110})$	1,35,000	By Sales	4,50,000
" Purchases	2,10,000	" Closing Stock (bal fig.)	75,000
" Wages	90,000		
" Profit and Loss A/c —Gross Profit transferred (@ 20% on ₹4,50,000)	90,000		
	5,25,000		5,25,000

Amount of Claim = Value of Stock at the date of fire – Stock Salvaged + Sold on approval but lost

= ₹ 75,000 – ₹ 30,000 + ₹ 6,000 = ₹ 51,000.

Note: It has been assumed that while calculating gross profit in past year, correct valuation of stock was made.

(b) (i) Mr. M owed ₹ 3,000 on 1st Jan, 2014 to Mr. S. The following are the transactions that took place between them during 2014. It is agreed between the parties that interest @ 6% p.a. is to be calculated on all transactions.

2014			**₹**
January	**16**	**Mr. S sold goods to Mr. M**	**2,000**

January	**29**	**Mr. S purchase goods from Mr. M**	**1,500**
February	**10**	**Mr. S pays cash**	**1,500**
March	**7**	**Mr. M accepts bill drawn by Mr. S for one month**	**2,000**

They desire to settle their accounts by one single payment on 15th March 2014. Ascertain the amount to be paid to the earnest rupee. Ignore days of grace. [6]

Answer:

Mr. M Account Current with Mr. S

for the period ended 15th March 2014

Date	Particulars	Amount	Days	Product	Date	Particulars	Amount	Days	Product
2014					2014				
Jan 1	To Balance b/d	3,000	74	2,22,000	Jan. 29	By Purchases	1,500	45	67,500
Jan 16	To Sales	2,000	58	1,16,000	Mar. 7	By B/R (Due date: Apr.-7)	2,000	-23	-46,000
Feb10	To Cash	1,500	33	49,500					
Mar 15	To Interest	60			15 Mar.	By Balance of Product		—	3,66,000
						By Balance c/d	3,060		
		6,560		3,87,500			6,560		3,87,500

Interest = 3,66,000 × $\frac{6}{100}$ × $\frac{1}{365}$ = 60.16 (or) ₹ 60.

Single Payment on 15.3.2014 = ₹ 3,060

(b) (ii) Mr. D of Delhi sent out 1,000 boxes to Mr. K of Kolkata costing ₹20 each. Consignor's expenses ₹2,000. 4/5th of the boxes were sold at ₹25 each. Compute the profit on consignment. [2]

Answer:

Profit on consignment is [(1,000 × 80%)×₹25] - [(1,000 × ₹20) + ₹2,000] × $\frac{4}{5}$]

= (₹20,000 -₹17,600) = ₹2,400.

(c) M and N decided to work a joint venture for the sale of electric motors.

On 1st May 2014, M purchased 200 electric motors at ₹ 175 each and dispatched 150 motors to N incurring ₹ 1,000 as freight and insurance charges. 10 electric motors were damaged in transit. On 1st February 2015, ₹ 500 were received by M from the insurance company, in full settlement of his claim. On 15th March 2015, M sold 50 electric motors at ₹ 225 each. He received ₹ 15,000 from N on 1st April 2015.

On 15th May 2014, N took delivery of the electric motors and incurred the following expenses:

Clearing Charges ₹ 170; Repair charges to electric motors damaged in-transit ₹ 300; Godown Rent for 3 months ₹ 600.

He sold the electric motors as:

1.2.2015	**10 damaged motors ₹ 170 each**
	40 motors at ₹ 200 each
15.3.2015	**20 motors at ₹ 315 each**
1.4.2015	**80 motors at ₹ 250 each**

It is agreed that they are entitled to a commission of 10% on the respective sales effective by them; that the profits and losses shall be shared between M and N in the ratio of 2:1. N remits M the balance of amount due on 30th April 2015. You are required to show the Memorandum Joint Venture Account only. You are required to show the Memorandum Joint Venture Account only. **[8]**

Answer:

Date	Particulars		Amount ₹	Date	Particulars		Amount ₹
2014				2015			11,250
May 1 "	To M : Cost of Motors (200 ×₹ 175)		35,000	Mar. 15	By M : Sale of Motors (50 ×₹ 225)		
May 15	" M : Freight and Insurance		1,000	Feb. 1	" N : Sale of Motors		
	" N :				10 × ₹ 170 = ₹	1,700	
	Clearing Charge	170		Mar. 15	40 × ₹ 200 = ₹	8,000	
	Repairs	300			20 × ₹ 315 = ₹	6,300	
	Ground Rent	600	1,070		80 × ₹ 250 = ₹	20,000	36,000
April 15	" M: Commission @ 10%		1,125	Apr. 1	" M: Insurance Claim		500
" 30	" N: Commission @ 10%		3,600				
	" Profit on Venture:						
	M ($\frac{2}{3}$)	3,970					
	N ($\frac{1}{3}$)	1,985	5,955				
			47,750				47,750

7. **(Answer any two)**

(a) The Life Fund of a Life Assurance Ltd. was ₹90,00,000 as on 31st March, 2015. The interim bonus paid during the intervaluation period was ₹ 4,00,000. The periodical actuarial valuation determined the net liability at ₹ 74,00,000. Surplus brought forward from the previous valuation was ₹ 5,00,000. The directors of the company proposed to carry forward ₹ 10,00,000.

Required: Show: the Valuation Balance Sheet; the Net Profit for the valuation period; and the distribution of the surplus. **[8]**

Answer:

(A) Valuation Balance Sheet of Life Assurance Ltd. as at 31st March, 2015

Liabilities	₹	Assets	₹
Net Liability, as per Acturial Valuation	74,00,000	Life Assurance Fund as per Balance sheet	90,00,000
Surplus	16,00,000		
	90,00,000		90,00,000

(B) Statement Showing the Profit for the Inter-Valuation Period

Particulars	₹
A. Surplus as per valuation Balance Sheet	16,00,000
B. Adjustment to be made—Interim Bonus already distributed	4,00,000
C. Total Surplus subject to taxation	20,00,000
D. *Less:* Surplus at the beginning of the period	(5,00,000)
E. Profit for the Inter-Valuation Period (C – D)	15,00,000

(C) Statement Showing the Distribution of Surplus

Particulars	₹
A. Total Surplus subject to Taxation	20,00,000
B. *Less:* Surplus to be carried forward	(10,00,000)
C. Surplus available for distribution (A – B)	10,00,000
D. Share of Shareholders @ 5%	(50,000)
E. Share of Policyholders @ 95%	9,50,000
F. *Less:* Interim Bonus already paid	(4,00,000)
G. Amount due to Policy holders (E – F)	5,50,000

(b) From the following information Calculate Return on Equity as per Regulation 21 of the Central Electricity Regulatory Commission (Terms and Conditions of Tariff) Regulations, 2004:

A. Date of Commercial Operation of COD = 1st April 2010

B. Approved Opening Capital Cost as on 1st April 2010 = ₹ 1,50,000

C. Details of allowed Additional Capital Expenditure. Repayment of Loan and Weighted Average Rate of Interest on Loan is as Follows

	1st Year	2nd Year	3rd Year	4th Year
Additional Capital Expenditure (Allowed)	**10,000**	**3,000**	**2,000**	**1,000**

[8]

Answer:

Computation of Return on Equity

Particulars	1st Year	2nd Year	3rd Year	4th Year
A. Opening Equity (30%)	45,000	48,000	48,900	49,500
B. Additional Equity (30%)	3,000	900	600	300
C. Closing Equity (A + B)	48,000	48,900	49,500	49,800
D. Average Equity [(A + C)/2]	46,500	48,450	49,200	49,650
E. Return on Equity (D × 14%)	6,510	6,783	6,888	6,951

(c) (i) Discuss - State Electricity Commission (SEC). **[3]**

Answer:

The State Electricity Commission shall be a body corporate, having perpetual succession and a common seal with power to acquire, hold and dispose of property, both movable and immovable, and to contract and shall, by the said name, sue or be sued.

The functions of the State Commission include determining the tariff of generation, supply, transmission and wheeling of electricity companies, wholesale, bulk or retail, regulating the inter-state transmission of electricity, to issue licenses, to levy fees, to fix trading margin etc.

(ii) List the statistical books to be maintained by a banking company. [2]

Answer:

Following are the statistical books to be maintained by a banking company:

- Books recording the Average Balance in Loan and Advances etc.
- Books recording the Deposits received and amount paid out each month in the various departments.
- Number of Cheques paid.
- Number of Cheques, Drafts, Bills etc. collected.

(iii) State the meaning of Reinsurance. [3]

Answer:

Re-insurance is an arrangement under which one insurance Company (called Re-insurer or Re-insurance Co.) insures the whole or a part of the subject matters already insured by another insurance Company (called Re-insured or Ceding Company). Thus, Ceding Company agrees to pass on whole or a part of risk to reinsurance company which agrees to accept the transferred risk.