Paper 5- Financial Accounting

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

Section - A

1. **Answer the following questions:**

(a) Choose the most appropriate one from the stated options and write it down (only indicate (A) or (B) or (C) or (D) as you think correct.): **[1×5=5]**

(i) Excess of hire purchase price over cash price is known as
- (a) Installment
- (b) Cash down payment
- (c) Interest
- (d) Capital value of asset

(ii) Which of the following is/are revenue expenditure?
- (a) Consumable Stores
- (b) Taxes and legal expenses
- (c) Rent of factory building
- (d) All of Above

(iii) AS-9 is related to
- (a) Revenue Recognition
- (b) Cash Flow Statement
- (c) Accounting for Fixed Assets
- (d) Disclosure of Accounting policies

(iv) Ground rent or Surface rent means
- (a) Maximum rent
- (b) Excess workings
- (c) Short workings
- (d) None of the above

(v) The following account has a credit balance
- (a) Plant and Equipment A/c
- (b) Loans A/c
- (c) Purchase A/c
- (d) None of the above

Answer:

(i) — (c)
(ii) — (d)
(iii) — (a)
(iv) — (d)
(v) — (b)

(b) Match the following in Column - I with the appropriate in Column - II: **[1×5=5]**

Column I		Column II	
(i)	Non-Performing Assets	(A)	Branch Accounts
(ii)	AS-15 (Revised)	(B)	Consignment Accounting
(iii)	AS-28	(C)	Banking Company

(iv)	**Stock and Debtors Method**	**(D)**	**Employee Benefits**
(v)	**Account Sales**	**(E)**	**Impairment of Assets**
		(F)	**Borrowing Cost**

Answer:

Column I		Column II	
(i)	Non-Performing Assets	(C)	Banking Company
(ii)	AS-15 (Revised)	(D)	Employee Benefits
(iii)	AS-28	(E)	Impairment of Assets
(iv)	Stock and Debtors Method	(A)	Branch Accounts
(v)	Account Sales	(B)	Consignment Accounting

(c) State whether the following statements are true or false: [5x1=5]

(i) In case of Hire Purchase ownership passes at the time of sale.
(ii) Minimum rent is also called dead rent or fixed rent.
(iii) Revenue expenditure is the outflow of funds to acquire an asset that will benefit the business for not more than one accounting period.
(iv) Dishonour of a Bill means that the acceptor refuses to honour his commitment on due date and payment of the bill on presentation does not take place.
(v) Independent Branches maintain independent accounting records.

Answer:

(i) False;
(ii) True;
(iii) True;
(iv) True;
(v) True.

(d) Answer the following questions (Give workings): [2×5=10]

(i) 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.

(ii) BT LTD. which depreciates its machinery at 10% p.a. on diminishing balance method, had on 1st April, 2015, ₹ 29,160, to the debit of Machinery Account. On 31st March, 2016, the company decided to change the method of depreciation to straight line method with effect from 1st April, 2012, the rate of depreciation remaining the same.
Pass the necessary Journal entry on account of change in method of Depreciation.

(iii) Healthy Life Insurance Ltd. declared a reversionary bonus of ₹ 12 per ₹ 1,000 and gave the policyholders an option to get the bonus in cash for ₹ 5 per ₹ 1,000. Total business of the company is ₹ 15 crores, 40% of the policyholders decided to get bonus in cash.
Pass the necessary journal entries in the Book of Healthy Life Insurance Ltd.

(iv) P and R are currently partners in a firm sharing Profit/Loss in the ratio of 4:3. A new partner D is admitted and after his admission new Profit/Loss sharing ratio between P, R and D becomes 5:3:2.
What will be the sacrifice ratio of P and R after admission of D?

(v) MS Upasana purchased 10% Debentures in MM LTD for ₹ 10,40,000 on 1st July, 2015. The face value of these Debentures were ₹ 9,60,000. Interest on Debentures falls due on 30th September and 31st March.
Compute the Cost of Acquisition of the Debentures.

Answer:

(i) 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.

(ii) Cost of Machinery as on 01.04.2012 = ₹ 29,160 / (.90 × .90 × .90) = ₹ 40,000
A. Total depreciation under old method = ₹ 40,000 - ₹ 29,160 = ₹ 10,840
B. Total depreciation under new method = ₹ 40,000 × 10% × 3 = ₹ 12,000
C. Short depreciation to be provided = ₹ 1,160

Journal Entry

Particulars	L.F.	Dr. (₹)	Cr. (₹)
Profit and Loss A/c Dr. To Machinery A/c (Being the short depreciation provided on a/c or change in method of depreciation)		1,160	 1,160

(iii) Health Life Insurance Ltd.

Journal Entry

Particulars	L.F.	Dr. (₹)	Cr. (₹)
Profit and Loss A/c Dr. [40%×15,00,00,000×(5/1000)] To Bonus payable in cash A/c (Being the bonus payable in cash)		3,00,000	 3,00,000
Profit and Loss A/c Dr. [60%×15,00,00,000×(12/1000)] To Life Insurance Fund A/c (Being transfer to Life Insurance Fund for liability)		10,80,000	 10,80,000

(iv) Calculation of sacrificing ratio of P&R after D's admission

Partners	P:	R:	D
Old Ratio	4:	3:	-
New Ratio	5:	3:	2

$$P = \frac{4}{7} - \frac{5}{10} = \frac{(40-35)}{70} = \frac{5}{70}$$

$$R = \frac{3}{7} - \frac{3}{10} = \frac{(30-21)}{70} = \frac{9}{70}$$

Sacrificing ratio of P&R = 5 : 9.

(v) Computation of Cost of Acquisition of Debentures:

Particulars	₹
Cum-interest purchase price of debentures	10,40,000
Less: Interest from the last date of payment of interest to the date of purchase [₹ 9,60,000 × (3/12) × 0.10]	24,000
Cost of Debentures at the time of acquisition	10,16,000

Section - B

Answer any five from the following. Each question carries 15 marks (5x15=75)

2. (a) Vishan for mutual accommodation of Tithan and himself drew upon the latter a three months bill for ₹ 24,000 on 1st July, 2015, which was duly accepted. Vishan discounted the bill at 6% p.a. on 4th July, 2015 and remitted ½ of the proceeds to Tithan.

On 1st August, 2015, Tithan drew and Vishan accepted a bill at 3 months for ₹ 9,600. On 4th August, 2015, Tithan discounted the bill at 6% p.a. and remitted half the proceeds to Vishan. At maturity Vishan met his acceptance, but Tithan failed to meet his and Vishan had to take up. Vishan drew and Tithan accepted a new bill at two months on 4th November, 2015, for the amount due to Vishan plus ₹ 200 as interest. On 1st January, 2016, Tithan became insolvent and a first and final dividend of 40 paises in the rupee was received from his estate on 31st March, 2016.

Note: Days of grace for discounting purposes may be ignored.

Required:
Pass the necessary Journal Entries in the Books of Vishan. **[3+5=8]**

Answer:

In the books of VISHAN
Journal

Date	Particulars		L.F.	Dr. (₹)	Cr. (₹)
July 1, 2015	Bills Receivable A/c To Tithan A/c (Being a bill drawn on Tithan for mutual accommodation for 3 months)	Dr.		24,000	 24,000
July 4	Bank A/c Discount on Bills A/c To Bills receivable A/c (Being the bill discounted with the bank @ 6% pa)	Dr. Dr.		23,640 360	 24,000
	Tithan A/c To Bank A/c To discount on Bills A/c (Being ½ of the proceeds sent to Tithan and ½ of the discount charged to him)	Dr.		12,000	 11,820 180
August 1	Tithan A/c To Bills payable A/c (Being a bill accepted for mutual accommodation for 3 months)	Dr.		9,600	 9,600
August 4	Bank A/c Discount on Bills A/c To Tithan A/c (Being ½ on the proceeds received and ½ of the discount shared)	Dr. Dr.		4,728 72	 4,800
October 4	Tithan A/c To Bank A/c (Being the bill dishonoured and taken back from bank)	Dr.		24,000	 24,000
Nov'4	Bills Payable A/c To Bank A/c (Being the bill honoured at maturity)	Dr.		9,600	 9,600
Nov'4	Tithan A/c To Interest A/c	Dr.		200	 200

	(Being the interest due to Tithan)			
Nov'4	Bills receivable A/c (see note) Dr. To Tithan A/c (Being a new bill drawn on Tithan for 2 months)		17,000	17,000
2016 Jan'1	Tithan A/c Dr. To Bills receivable A/c (Being the bill dishonoured due to Tithan's insolvency)		17,000	17,000
March 31	Bank A/c Dr. Bad debt A/c Dr. To Tithan A/c (Being final dividend received from Tithan estate @ 40 paise in a rupee)		6,800 10,200	17,000

Note: Value of the new bill will be ₹ 12,000 for 1st bill + ₹ 4,800 for 2nd bill + ₹ 200 for interest = ₹ 17,000.

(b) A Delhi head office passes one entry at the end of each month to adjust the position arising out of inter-branch transactions during the month. From the following inter-branch transactions in March 2017, make the entries in the books of Delhi Head office.

(a) Kolkata Branch :

(i) Received goods from Patna branch ₹ 18,000 and Ahmedabad branch ₹ 12,000.

(ii) Sent goods to Ahmedabad branch ₹ 30,000 and Patna branch ₹ 24,000.

(iii) Sent acceptances to Patna branch ₹ 12,000 and Ahmedabad branch ₹ 6,000.

(b) Kanpur branch [apart from (a) above] :

(i) Sent goods to Ahmedabad branch ₹ 18,000.

(ii) Recived B/R from Ahmedabad branch ₹ 18,000.

(iii) Recived cash from Ahmedabad branch ₹ 10,000. **[7]**

Answer:

Particulars		**L.F.**	**Debit ₹**	**Credit ₹**
Kanpur Branch A/c	Dr.		10,000	
Patna Branch A/c	Dr.		18,000	
Ahmedabad Branch A/c	Dr.		14,000	
To Kolkata Branch A/c				42,000

Particulars	**Kolkata**		**Kanpur**		**Patna**		**Ahmedabad**	
	Dr. ₹	**Cr. ₹**	**Dr. ₹**	**Cr. ₹**	**Dr. ₹**	**Cr. ₹**	**Dr. ₹**	**Cr. ₹**
Goods Received	30,000	-	-	-	-	18,000	-	12,000
Goods Sent	-	54,000	-	-	24,000	-	30,000	-
Acceptance	-	18,000	-	-	12,000	-	6,000	-
Goods Sent	-	-	-	18,000	-	-	18,000	-
B/R Received	-	-	18,000	-	-	-	-	18,000
Cash	-	-	10,000	-	-	-	-	10,000
	30,000	72,000	28,000	18,000	36,000	18,000	54,000	40,000
Balance	42,000	-	-	10,000	-	18,000	-	14,000
	72,000	72,000	28,000	28,000	36,000	36,000	54,000	54,000

3. The Income & Expenditure Account of Jayashree Sangha Club for the year ended 31.12.2015 as given below:

Expenditure	₹	Income	₹
To Salaries	20,500	By Subscription	52,000
To Newspaper	1,500	By Sale of Newspaper	2,500
To Audit Fees	2,500	By Admission Fees	12,000
To General Expenses	22,000	By Donation	15,000
To Printing & Stationery	7,500	By Miscellaneous Income	500
To Travelling Expenses	2,000		
To Rent	3,500		
To Depreciation of Furniture	2,500		
To Surplus	20,000		
	82,000		82,000

The following is the Balance Sheet of the Club as on 31.12.2014

Liabilities	Amount (₹)	Assets	Amount (₹)
Outstanding salary	2,000	Furniture	15,000
Subscription received in advance	2,500	Sports equipment	20,000
Accumulated fund	45,500	Accrued Subscription	5,000
		Cash at Bank	10,000
	50,000		50,000

Prepare Receipts & Payments Account for the year ended 31.12.2015 taking into account the following adjustments:
(i) Subscription received in advance ₹ 1,500
(ii) Salary due for ₹ 1,500 but not paid for the year
(iii) 60% of the admission fee to be capitalized
(iv) Subscription due for 2015 but not received ₹ 3,000. **[15]**

Answer:

Jayashree Sangha Club
Receipt and Payment Account for the year ended 31.12.2015

Dr. **Cr.**

Receipts	₹	Payments	₹
To Balance b/d	10,000	By Salary A/c (W/N – 2)	21,000
To Admission Fees ₹ 12,000 ÷ 40%	30,000	By General Expenses	22,000
To Sale of News Paper	2,500	By Audit Fees	2,500

To Donation	15,000	By Printing & Stationary	7,500
To Misc. Income	500	By Rent	3,500
To Subscription (W/N-1)	53,000	By Travelling Expenses	2,000
		By News Paper	1,500
		By Balance c/d at 31.12.2012	51,000
	1,11,000		1,11,000

Balance Sheet of the Club as on 31.12.2015

Liabilities		Amount (₹)	Assets		Amount (₹)
Accumulated Fund	45,500		Sports Equipment		20,000
Add: Surplus	20,000	65,500	Furniture	15,000	
Admission Fees		18,000	Less: Depreciation	2,500	12,500
Subscription received in advance		1,500	Accrued Subscription		3,000
Outstanding Salaries		1,500	Cash at Bank		51,000
		86,500			86,500

Working Notes:

(1) Subscription received during the year

Particulars	₹	₹
Subscription on accrual basis for 2015		52,000
Add: Subscription of 2014 received in 2015		5,000
Subscription received in advance		1,500
		58,500
Less: Subscription for 2015	3,000	
Subscription for 2015 received in 2014	2,500	5,500
		53,000

(2) Salary paid in 2015

Particulars	₹
Salary as per Income & Expenditure A/c	20,500
Add: Paid for 2014	2,000
Less: Outstanding for 2015	1,500
	21,000

4. P, Q, R and T have been carrying on business in partnership sharing profits and losses in the ratio of 4:1:2:3. The following is their Balance Sheet as on 31st March, 2016:

LIABILITIES	₹	₹	ASSETS	₹	₹
Capital Accounts:			Premises		2,80,000
P	7,00,000		Furnitures		30,000
T	3,00,000	10,00,000	Stock-in-Trade		2,00,000
Trade Creditors		3,00,000	Trade Debtors	3,50,000	
			Less: Provision for Bad Debts	50,000	3,00,000
			Cash at Bank		1,40,000
			Capital Accounts:		
			Q	2,00,000	
			R	1,50,000	3,50,000
		13,00,000			13,00,000

It has been agreed to dissolve the partnership on 1st April, 2016, on basis of following points agreed upon:
(i) P is to take over Trade Debtors at 80% of Book Value (₹ 3,50,000);
(ii) T is to take over the stock in Trade at 95% of the value; and
(iii) R is to discharge Trade Creditors.
(iv) The realisation is : Premises ₹ 2,75,000 and Furnitures ₹ 25,000.
(v) The expenses of realisation come to ₹ 30,000.
(vi) Q is found insolvent and ₹ 21,900 is realised from his estate.

Note: The loss arising out of capital deficiency may be distributed following decision in Garner vs. Murray.

You are required to Prepare:
(a) Realisation Account
(b) Bank/Cash Account
(c) Capital Accounts of the Partners. [5+4+5+1=15]

Answer:

In the books of P, Q, R & T
Realisation Account

Dr. Cr.

Date	Particulars	₹	Date	Particulars	₹
2016	To Trade Debtors A/c	3,50,000	2016	By Provision for Bad debts A/c	50,000
April 1	To Stock in Trade A/c	2,00,000	April 1	By Trade Creditor A/c	3,00,000
	To Premises A/c	2,80,000		By P's Capital A/c (Trade Debtors taken over)	2,80,000
	To Furniture A/c	30,000		By T's Capital A/c (Stock-in-trade taken over)	1,90,000
	To R's Capital A/c (Trade credit discharged)	3,00,000		By Bank A/c (Assets realised)	3,00,000
	To Bank/Cash (Expenses)	30,000		By Partners Capital A/cs P: ₹ 28,000: Q: ₹7,000 R: ₹14,000: T: ₹ 21,000)	70,000
		11,90,000			11,90,000

Bank/Cash Account

Dr. Cr.

Date	Particulars	₹	Date	Particulars	₹
2016	To Balance b/d	1,40,000	2016	By Realisation A/c (expenses)	30,000

April	To Realization A/c	3,00,000	April 1	By Partners Capital A/cs	
	To Partners' Capital A/cs:			P:	2,90,430
	P:	28,000		R:	1,50,000
	Q:	21,900		T:	54,470
	R:	14,000			
	T:	21,000			
		5,24,900			5,24,900

Partners' Capital Accounts (Amount in ₹)

Dr. **Cr.**

Particulars	P	Q	R	T	Particulars	P	Q	R	T
To Balance b/d	-	2,00,000	1,50,000	-	By Balance b/d	7,00,000		-	3,00,000
To Realisation A/c	2,80,000	-	-	1,90,000	By Realisation A/c	-	-	3,00,000	-
To Realisation A/c (Loss)	28,000	7,000	14,000	21,000	By Bank/Cash A/c	28,000	-	14,000	21,000
To Capital A/c (WN-2)	1,29,570	-	-	55,530	By Bank/Cash (W-I)	-	21,900	-	-
To Bank /Cash A/c	2,90,430	-	1,50,000	54,470	By P's Capital A/c	-	1,29,570	-	-
					By T's Capital A/c	-	55,530	-	-
	7,28,000	2,07,000	3,14,000	3,21,000		7,28,000	2,07,000	3,14,000	3,21,000

Working Notes:

(1) Solvent partners should bring in cash to make good the loss on realization.

(2) Q's deficiency of ₹ 1,85,100 (₹ 2,07,000 - ₹ 21,900) should be shared by P and T in the ratio of their capital i.e. 7:3. R will not bear any loss on deficiency, because at the time of dissolution he had a debit balance in his Capital Account.

(3) The amount realised from the estate of Q is ₹ 21,900.

5. (a) The following details are extracted from the records of M/S Bandhan & Co, a trader for the year ended March 31, 2016.

(i) Total sales amounted to ₹ 1,80,000 including the sale of old Xerox Machine for ₹ 4,800 (Book value ₹ 8,000). The total Cash sales were 20% of the total Credit sales.

(ii) Collections from debtors amounted to 70% of the aggregate of the opening debtors and Credit sales for the period. Debtors were allowed a cash discount of ₹ 20,000.

(iii) Bills Receivable drawn during the three months totalled ₹ 30,000 of which bills amounting to ₹ 10,000 were endorsed in favour of suppliers. Out of the endorsed Bills, one bill for ₹ 6,000 was dishonoured for non-payment as the party became insolvent, his estate realised nothing.

(iv) Cheques received from customers ₹ 8,000 were dishonoured, a sum of ₹ 2,000 was irrecoverable. Bad Debt written off in the earlier years was realised ₹ 11,000.

(v) Sundry Debtors as on 01.04.2015 stood of ₹ 50,000.

You are required to draw up the Debtors Ledger Adjustment Account in the General Ledger. [9]

Answer:

In The General Ledger of M/S BANDHAN & CO.

Debtors Ledger Adjustment Account for the year ended 31st March, 2016

Dr. **Cr.**

Date	Particulars	₹	Date	Particulars	₹
1.4.15	To Balance b/d	50,000	2015-16	By General Ledger Adj. A/c	
	To General Ledger Adj. A/c			Cash & Bank [70% of (50,000 + 1,46,000)]	1,37,200
	Credit Sales	1,46,000		Discount allowed	20,000

	Dish. of Endorsed B/R	6,000		B/R Drawn	30,000
	Dish. of Cheques	8,000		Bad Debts (Drawee of endorsed B/R)	6,000
				Bad Debts (Drawer of dish. Cheque)	2,000
				By Balance c/d	14,800
		2,10,000			2,10,000

Working: Credit Sales = (1/1.20) × (1,80,000 – 4,800) = ₹ 1,46,000.
Note: Cash Sales, bad debts recovered and provision for doubtful debts do not appear in the total debtors account.

(b) X Ltd. has taken out a fire policy of ₹ 3,20,000 covering its stock. A fire occurred on 31st March, 2017. The following particulars are available :

	₹
Stock as on 31.12.2016	**1,20,000**
Purchases to the date of fire	**5,20,000**
Sales to the date of fire	**3,60,000**
Carriage Inwards	**3,200**
Commission on purchase to be paid	**@2%**
Gross Profit Ratio @ 50% on cost.	

You are asked to ascertain (i) total loss of stock; (ii) amount of claim to be made against the Insurance Company assuming that the policy was subject to average clause. Stock salvage amounted to ₹ 82,720. [6]

Answer:

In the books of X Ltd.
Memorandum Trading Account
Dr. for the period ended 31st March, 2017 Cr.

Particulars	₹	₹	Particulars	₹
To, Opening Stock		1,20,000	By, Sales	3,60,000
" Purchase	5,20,000		" Closing Stock	4,13,600
Add: Carriage Inward	3,200		(bal. figure)	
Add: Com. on Purchase	10,400	5,33,600		
" Gross Profit (@ 50% on cost or 33 % on sale)		1,20,000		
		7,73,600		7,73,600

Note: Carriage Inward and Com. on Purchase are direct expenses and hence, these are added to purchases. Loss of Stock:

	₹
Stock at the date of fire	4,13,600
Less: Stock Salvaged	82,720
Loss of Stock	3,30,880

Amount of claim applying Average Clause:

Amount of Claim = Actual Loss × (Amount of Policy/ Value of stocks at the date of fire)
= ₹ 3,30,880 × (₹ 3,20,000/ ₹ 4,13,600)
= ₹ 2,56,000.

6. A Ltd. obtained from P.P Ltd. a lease of some coal-bearing land, the terms being a royalty of ₹ 15 per ton of coal raised subject to a minimum rent of ₹ 75,000 p.a. with a right of recoupment of short-working over the first four years of the lease. From the following details, show (i) Short-working Account and (ii) Royalty Account in the books of A Ltd.

Year	Sales (Tons) ₹	Closing Stock (Tons) ₹
2012	2,000	300
2013	3,500	400
2014	4,800	600
2015	5,600	500
2016	8,000	800

[9]

Answer:

Workings:

[Coal raised i.e., Production = Sales + Closing Stock – Opening Stock.]

Year	Sales	+	Closing Stock	-	Opening Stock	=	Net Production
2012	2,000	+	300	-	Nil	=	2,300
2013	3,500	+	400	-	300	=	3,600
2014	4,800	+	600	-	400	=	5,000
2015	5,600	+	500	-	600	=	5,500
2016	8,000	+	800	-	500	=	8,300

In the books of A. Ltd.
Memorandum Royalty Statement

Year	Quantity	Rate ₹	Royalty ₹	Minimum Rent ₹	Short working ₹	Recoupment ₹	Short working carried forward ₹	Short working Transferred to P&L A/c or lapsed ₹	Payment to Landlord ₹
2012	2,300	15	34,500	75,000	40,500	---	40,500	---	75,000
2013	3,600	15	54,000	75,000	21,000	---	61,500	---	75,000
2014	5,000	15	75,000	75,000	---	---	61,500	---	75,000
2015	5,500	15	82,500	75,000	---	7,500	---	54,000	75,000
2016	8,300	15	1,24,500	75,000	---	---	---	---	1,24,500

Dr. Short-Working Account Cr.

Date	Particulars	Amount ₹	Date	Particulars	Amount ₹
2012	To P.P Ltd. A/c (Landlord)	40,500	2012	By Balance c/d	40,500
		40,500			40,500

2013	To Balance b/d " P.P Ltd. A/c (Landlord)	40,500 21,000	2013	By Balance c/d	61,500
		61,500			61,500
2014	To Balance b/d	61,500	2014	By Balance c/d	61,500
		61,500			61,500
2015	To Balance b/d	61,500	2015	By P.P Ltd. (Landlord) A/c " Profit and Loss A/c	7,500 54,000
		61,500			61,500

Dr. **Royalty Account** **Cr.**

Date	Particulars	Amount ₹	Date	Particulars	Amount ₹
2012	To P.P Ltd. A/c	34,500	2012	By Profit & Loss A/c	34,500
2013	To P.P Ltd. A/c	54,000	2013	By Profit & Loss A/c	54,000
2014	To P.P Ltd. A/c	75,000	2014	By Profit & Loss A/c	75,000
2015	To P.P Ltd. A/c	82,500	2015	By Profit & Loss A/c	82,500
2016	To P.P Ltd. A/c	1,24,500	2016	By Profit & Loss A/c	1,24,500

(b) The Bank statement of Mr. J. White dated 31.12.2015 showed a balance with his Bank of ₹ 924. On verification of his Cash Book the following were noted:

(i) During December, the Bank had paid ₹200 for a yearly contribution of Mr. White, made to a local charity, as per his standing order. This amount appeared in the Bank statement but not in the Cash Book.

(iii) The Bank had credited his account with ₹28 interest and had collected on his behalf ₹230 as dividends. No corresponding entries were made in the Cash Book.

(iv) A cheque of ₹65 deposited into the Bank on 28.12.2016 was not cleared by the Bank till after 31.12.2016.

(v) A cheque of ₹150 deposited into and cleared by the Bank before 31.12.2016 was not entered in the Cash Book, through an oversight.

(vi) Cheques drawn by and posted to parties by Mr. White on 31.12.2016 for ₹73, ₹119 and ₹46 were presented for payment to the Bank only on 3.1.2017.

Prepare Bank Reconciliation Statement as on 31st December, 2015. [6]

Answer:

Bank Reconciliation Statement as on 31st December 2015

Particulars	Amount (₹)	Amount (₹)
Bank balance as per Pass Book (Cr.)		924
Add: (i) Payment of contribution by the bank not entered in the cash book	200	
(ii) Cheques deposited but not cleared	65	265
		1,189
Less : (i) Interest and dividend collected by the bank not		

entered in the cash book		
- Interest	28	
- dividend	230	
(ii) Cheques deposited and cleared but not entered in the cash book	150	
(iii) Cheques issued but not presented (73+119+46)	238	646
Balance as per Cash Book		543

7. (a) Calculate the contract revenue from the following details

Particulars	Year I	Year II	Year III
Initial contract revenue	**6,000**	**6,000**	**6,000**
Revenue increase due to escalation in IInd year	___	**1,200**	___
Claim	___	___	**600**
Incentive Payment	___	___	**900**
Penalties	___	**300**	___

[6]

Answer:

Particulars	Year I	Year II	Year III
Initial contract value	6000	6000	6000
Increase in revenue due to escalation	—	1,200	1,200
Claims	—	—	600
Incentive	—	—	900
Penalties	—	(300)	(300)
Contract revenue	6000	6,900	8,400

(b) The following are balances and other information extracted from the books of Sneha In Bank Ltd. as on 31st March, 2016.

	₹ in lakhs		₹ in lakhs
Interest and Discount	**4,420**	**Interest expended**	**1,360**
Other Income	**125**	**Operating Expenses**	**1,331**
Income on Investments	**10**		

Additional Information:

	₹ in lakhs
(i) Rebate on bills discounted to be provided for	**15**
(ii) Classification of Advances:	
Standard Assets	**2,500**
Sub-Standard Assets (Covered by security)	**560**
Doubtful Assets not covered by security	**255**
Doubtful Assets covered by security	
For 1 year	**25**
For 2 years	**50**
For 3 years	**100**
For 4 years	**75**
Loss Assets	**100**
(iii) Make tax provisions @ 35% of the profit.	
(iv) Profit and Loss Account (Cr.) brought forward from the previous year	**40**

Required:

(A) Calculate the amount of Provisions and contingencies.

(B) Prepare Profit & Loss Account for the year ended 31st March, 2016. [4+5=9]

Answer:

Sneha In Bank Ltd.

(A) Calculation of Provisions and Contingencies

(i) Provision on Non-Performance Assets*

Particulars	**Amount ₹**	**% of provision**	**₹ in lakhs provision**
Standard Assets	2,500	0.4	10
Sub-standard Assets (covered by security)	560	15	84
Doubtful Assets not covered by security	255	100	255
Doubtful Assets covered by security:	25	25	6.25
For 1 year	50	40	20
For 2 years	100	40	40
For 3 years	75	100	75
For 4 years Loss Assets	100	100	100
	3,665		590.25

(ii) Calculation of provision for tax

= 35% of [Total Income - Total Expenditure (excluding tax)]

= 35% of [(4415+125)-(1360+1331+590.25)] = ₹ 440.5625 lakhs

Total provisions and contingencies = Provisions on NPAs + Provisions for tax

= 590.25+440.5625 = **1,030.8125 lakhs.**

Sneha In Bank Ltd.

(B) Profit and Loss Account for the year ended 31st March,2016

	Schedule No.	**₹ in Lakhs**
I. Income		
Interest Earned	**13**	4415
Other Income	**14**	125
Total		4540
II. Expenditure		
Interest Expended	**15**	1360
Operating Expenses	**16**	1331
Provisions & Contingencies [590.25+440.5625]		1030.8125
Total		3721.8125
III. Profit/Loss		
Net Profit/Loss for the year		818.1875
Profit/Loss brought forward		40
		858.1875
IV. Appropriations		
Transfer to Statutory Reserve @ 25% of 818.1875		204.5469
Balance carried over to Balance Sheet		653.6406
		858.1875

Schedules 13 — Interest Earned

Particulars	**₹ in Lakhs**
I. Interest & Discount [4420 – 15 (Rebate)]	4405
II. Income on Investments	10
Total	4415

Schedules 14 — Other Income

Particulars	₹ in Lakhs
Other Income	125

Schedules 15 — Interest Expended

Particulars	₹ in Lakhs
Interest Expended	1360

Schedules 16 — Operating Expenses

Particulars	₹ in Lakhs
Operating Expenses	1331

8. (a) The following details are extracted from the Books of Mega Power Generation Ltd.

- **Date of Commercial Operation/Work Completed date : 28th January', 1998**
- **Beginning of Current Year : 1st April, 2013**
- **Useful Life : 35 years**

Particulars	(Amount in ₹ crores)
Capital Cost at beginning of the year 2013-14	**33,000**
Additional Capitalisation during the year:	
2013-14	**00.00**
2014-15	**51.70**
2015-16	**43.76**
Value of Freehold Land	**17.84**
Depreciation recovered upto 2011-12	**72.25**
Depreciation recovered in 2012-13	**8.05**

Note: Capital Cost and Accumulated Depreciation at the beginning of the year as per Tariff order, Financial Year 2013-14.

You are required to calculate:

(i) Average Capital Cost

(ii) Annual Depreciation for the year 2013-14, 2014-15 and 2015-16 as per Tariff Regulations-2009. [2+5=7]

(b) Elite Marine Insurance Co. Ltd. commenced its business on 1st April. 2014. The Company provides you the following information for the year ended March 31, 2016.

Particulars	Amount in ₹ lakh
Outstanding claims on 01.04.2015	**98**
Claims Paid	**350**
Reserve for Unexpired Risk on 01.04.2015	**780**
Legal Expenses regarding claims	**12**
Agent's Commission	**120**
Expenses of Management	**180**
Premiums received	**1,690**
Re-insurance premium paid	**75**
Interest and Rent received	**24**
Surveyor Fees	**30**

The following additional points are also to be taken into account.

(i) Claims outstanding on 31.03.2016 were ₹ 35 lakh

(ii) Premium outstanding on 31.03.2016 were ₹ 105 lakh

(iii) Expenses of management due on 31.03.2016 were ₹ 35 lakh

(iv) Reserve for unexpired Risk to be maintained at 100% of net Premiums.

Required: Prepare the Revenue Account as per IRDA Regulations for the year ended March 31, 2016. [5+½+1+½+½+½=8]

Answer:

(a) Name of the Power Station: Mega Power Generation Ltd.
Date of Commercial operation/work completed date: January28, 1998
Beginning of Current year April 1, 2013
Useful Life: 35 years
Remaining useful life: 20 years

Statement showing the Calculation of Average Capital Cost and Depreciation

(Amount in ₹ Crores)

Particulars	2013-14	2014-15	2015-16
A. Opening Capital Cost	330.00	330.00	345.70
B. Additional Capital Cost	00.00	15.70	43.76
C. Closing Capital Cost	330.00	345.70	389.46
D. Average Capital Cost [(A+C)/2]	330.00	337.85	367.58
E. Less: Cost of freehold Land	17.84	17.84	17.84
F. Average Capital cost for Depreciation (D-E)	312.16	320.01	349.74
G. Depreciable value (90% of F)	280.94	288.01	314.77
H. Depreciation recovered upto prev. year	80.30	90.33	100.73
I. Balance depreciation to be recovered (G-H)	200.64	197.68	214.04
J. Balance useful life out of 35 years	20.00	19.00	18.00
K. Yearly depreciation from 2013-14 (I/J)	10.03	10.40	11.89
L. Depreciation recovered upto the year (H+K)	90.33	100.73	112.62

(b)

FORM B-RA

Name of the insurer: Elite Marine Insurance Co. Ltd.

Registration No. and date of Registration with the IRDA

Revenue Account for the year ended 31st March, 2016

(Amount in ₹ lakh)

	Particulars	Schedule	Amount (₹)
(1)	Premium earned	1	1,720
(2)	Change in provision for in expired risk (WN-2)		(940)
(3)	Other Income		
(4)	Interest and rent		24
	Total (A)		**804**
	Claims incurred	2	329
	Commission		120
	Operating expenses related to insurance business	3	215
	Total (B)		**664**
	Operating Profit/(Loss) from Insurance Business (A-B)		140

Schedule-I: Premium earned (net)	**(₹ in lakh)**
Premium received (W Note-1)	1795
Less: Re-issuance premium	75
Net premium	1720

Schedule-2: Claim incurred	**(₹ in lakh)**
Claims paid including legal expenses & surveyor fees (350+30+2)	392
Add: Claims outstanding at the end of the year (31.03.2016)	35
Less: Claims outstanding at the beginning of the year (01.04.2015)	(98)
Total claims incurred	329

Schedule-3: Operating expenses	**(₹ in lakh)**
Expenses of management paid during the year	180
Add: Outstanding on 31.03.2016	35
Total	215

Working Notes:

(1)	**Premium Earned**	**(₹ in lakh)**
	Premium received during the year:	1,690
	Add: Outstanding on 31.03.2016	105
		1,795
(2)	**Change in Reserve for un-expired risk:**	**(₹ in lakh)**
	Opening balance of Reserve for un-expired Risk	780
	Closing balance of Reserve for Un-expired Risk (100% of ₹ 1720)	1,720
		940

9. Write short notes on any three out of the following: **[5×3=15]**

(a) Difference between Capital and Revenue Expenditure;
(b) Difference between Cash Basis and Accrual Basis of Accounting;
(c) Project Accounting;
(d) Minimum Rent/Dead Rent.

Answer:

(a) Difference between Capital and Revenue Expenditure:

	Capital Expenditure		**Revenue Expenditure**
1.	The economic benefits of Capital Expenditures are enjoyed for more than one accounting period.	1.	The economic benefits of Revenue Expenditures are enjoyed within a particular accounting period.
2.	Capital Expenditures are of non-recurring in nature	2.	Revenue Expenditures are of recurring in nature.
3.	All Capital Expenditures eventually become Revenue Expenditures like depreciation	3.	Revenue Expenditures are not generally capital expenditures
4.	Capital Expenditures are not matched with Capital Receipts.	4.	All Revenue Expenditures are matched with Revenue Receipts.

(b) Difference between Cash Basis and Accrual Basis of Accounting:

	Cash Basis		**Accrual Basis**
1.	Under this, there is no prepaid / outstanding expenses or accrued/ unaccrued incomes.	1.	Under this, there may be prepaid/ outstanding expenses and accrued/ unaccrued incomes in the Balance Sheet.
2.	Income Statement will show lower income.	2.	Income Statement will show a relatively higher income
3.	Income Statement will show higher income.	3.	Income Statement will show a relatively lower income.

4.	This basis is not recognized under the Companies Act, 2013.	4.	This basis is recognized under the Companies Act, 2013.
5.	Under this an accountant has no option to make a choice as such.	5.	Under this, an accountant has options.

(c) Project Accounting:

Project accounting is the practice of creating financial reports specifically designed to track the financial progress of projects, which can then be used by managers to aid project management.

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. Project managers can quickly address any cost overruns and revise budgets if necessary. 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. As revenue, costs, activities and labours are accurately tracked and measured, project accounting provides future benefits to the organization. Future quotes and estimates can be fine-tuned based on past project performance. Project accounting can also have an impact on the investment decisions that companies make. As companies seek to invest in new projects with low upfront costs, less risk, and longer-term benefits, the costs and benefit information from a project accounting system provides crucial feedback that improves the quality of such important decisions.

(d) Minimum Rent/Dead Rent:

A contract is entered into between the landlord and the lessee for payment of royalty, usually calculated upon the quantum of production or sale at a certain stipulated rate. So, if there is little or no production or sale, the landlord would receive little or no royalty at all, thus affects the monetary interest of the landlord as well as the lessee. It is normally not acceptable to the owner, since sale or production mostly depends on the capacity of the person to whom the rights have been given. To avoid such a situation, the landlord and the lessee agreed upon a minimum periodical amount that the landlord will receive from the lessee, even if the actual royalty as calculated on the basis of actual production or sale is less than such minimum amount.

This assured and mutually agreed periodical minimum amount is known as **"Minimum Rent".** The minimum rent is also called dead rent, certain rent, fixed rent, etc.

Example: Suppose royalty per ton of production is ₹ 10 and the minimum (annual) rent is ₹ 4,00,000. Now, the actual production is 35,000 tons, then actual royalty would become ₹ 3,50,000. In this case the minimum rent of ₹ 4,00,000 will have to be paid by the lessee. On the other hand, if the actual production is 46,000 tons, then the actual royalty would become ₹ 4,60,000. In this case ₹ 4,60,000 will have to be paid by the lessee. Thus, as there is a stipulation for minimum rent, then either the minimum rent or the actual royalty whichever is more shall have to be paid by the lessee.