Paper 5- Financial Accounting

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

Section - A

1. Answer the following questions

(a) Multiple choice questions: **[5x1=5]**

(i) A transaction without immediate cash settlement is known as
- (a) Cash Transaction;
- (b) Credit Transaction;
- (c) Deferred Transaction;
- (d) None of the above.

(ii) Income Statement of a charitable institution is known as
- (a) Profit and Loss A/c
- (b) Receipts and payments A/c
- (c) Income and Expenditure A/c
- (d) Statement of Affairs

(iii) Goods are transferred from Department X to Department Y at a price so as to include a profit of 33.33% on cost. If the value of closing stock of Department Y is ₹48,000, then the amount of stock reserve on closing stock will be
- (a) ₹12,000
- (b) ₹9,000
- (c) ₹18,000
- (d) None of the above

(iv) Capital Profit arises from which of the following?
- (a) Profit prior to incorporation;
- (b) Premium received on issue of shares;
- (c) Profit made on re-issue of forfeited shares;
- (d) All of the above.

(v) Which of the following cannot be detected by Trial Balance?
- (a) Errors of Omission;
- (b) Errors of Principal;
- (c) Errors of Misposting;
- (d) All of the above.

Answer:

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

(b) Match the following: **[5x1=5]**

	Column 'A'		Column 'B'
1.	Double Column	A	Property, Plant and Equipments
2.	Under Valuation of Assets	B	Cash Book
3.	AS-10	C	Secret Reserves

4.	**Indemnity Period**	**D**	**Dead Rent**
5.	**Minimum Rent**	**E**	**Insurance Claim**

Answer:

	Column 'A'		Column 'B'
1.	Double Column	**B**	Cash Book
2.	Under Valuation of Assets	**C**	Secret Reserves
3.	AS-10	**A**	Property, Plant and Equipments
4.	Indemnity Period	**E**	Insurance Claim
5.	Minimum Rent	**D**	Dead Rent

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

(i) Depreciation is a charge against profit.
(ii) Compensation paid to employees who are retrenched is Capital expenditure.
(iii) In the hire purchase system interest charged by vendor is calculated on the basis of the outstanding cash price.
(iv) When complete sequence of accounting procedure is done, which happens frequently and repeatedly in same directions then it is called an accounting cycle.
(v) Liabilities are resources owned by the business with the purpose of using it for generating future profits.

Answer:

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

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

(i) X and Y are partners having Capitals of ₹ 2,40,000 and ₹ 60,000 respectively and a profit sharing ratio of 4 : 1. Z is admitted for 1/5th share in the profits of the firm and he pays ₹ 90,000 as Capital. Find out the value of the Goodwill.

(ii) Salary debited to Income and Expenditure Account for the year was ₹1,15,200 Outstanding salary paid in the beginning of the year and the outstanding salary at the end of the year were ₹14,400 and ₹18,000 respectively. Compute the amount of Salary to be shown in Receipts and Payments Account.

(iii) 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?

(iv) Kapil Ltd. acquired 4,000 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.

(v) The following information has been extracted from the books of a lessee for the year 2016-2017:

Particulars	Amount(₹)
Shortworkings lapsed	16,000
Shortworkings recovered	24,000

Actual royalty based on output	**60,000**

Compute the minimum rent.

Answer:

(i) Total Capital of the firm 90,000 × 5/1 = ₹4,50,000 [Taking Z's Capital as base]
Less: Combined Adjusted Capital = ₹3,90,000
[₹2,40,000 + ₹60,000 + ₹90,000]
Hidden Goodwill = ₹60,000

(ii)

	₹
Salary debited to Income & Expenditure A/c	1,15,200
Add: Outstanding Salary at beginning	14,400
	1,29,600
Less: Outstanding salary at end of the year	18,000
Amount of salary paid during the year to be shown in Receipts & Payments A/c	1,11,600

(iii) 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.

(iv)

Cost of Original Holding = 4,000 Shares x ₹ 75 Add: Cost of Rights Shares Subscribed = 2,000 Shares x ₹ 60	₹ 3,00,000 ₹ 1,20,000
Total Cost of Investment at year-end (6,000 Shares)	₹ 4,20,000

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

Section - B

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

2. (a) State with reasons whether the following are Capital Expenditure or Revenue Expenditure:

(i) Expenses incurred in connection with obtaining a licence for starting the factory were ₹ 22,000.

(ii) ₹ 3,000 paid for removal of stock to a new site.

(iii) Rings and Pistons of an engine were changed at a cost of ₹ 7,000 to get full efficiency.

(iv) A factory shed was constructed at a cost of ₹ 1,00,000. A sum of ₹ 5,000 had been incurred for the construction of the temporary huts for storing building materials. [6]

Answer :

(i) ₹ 22,000 incurred in connection with obtaining a license for starting the factory is a Capital Expenditure. It is incurred for acquiring a right to carry on business for a long period.

(ii) ₹ 3,000 incurred for removal of stock to a new site is treated as a Revenue Expenditure because it is not enhancing the value of the asset and it is also required for starting the business on the new site.

(iii) ₹ 7,000 incurred for changing Rings and Pistons of an engine is a Revenue Expenditure because, the change of rings and piston will restore the efficiency of the engine only and it will not add anything to the capacity of the engine.
Cost of construction of Factory shed of ₹ 1,00,000 is a Capital Expenditure, similarly cost of construction of small huts for storing building materials is also a Capital Expenditure.

(b) Ram of Patna consigns to Shyam of Delhi for sale at invoice price or over. Shyam is entitled to a commission @5% on invoice price and 25% of any surplus price realized. Ram draws on Shyam at 90 days sight for 80% of the invoice price as security money. Shyam remits the balance of proceeds after sales, deducting his commission by sight draft.
Goods consigned by Ram to Shyam costing ₹ 20,900 including freight and were invoiced at ₹ 28,400. Sales made by Shyam were ₹ 26,760 and goods in his hand unsold at 31st Dec, represented an invoice price of ₹ 6,920. (Original cost including freight ₹ 5,220). Sight draft received by Ram from Shyam upto 31st Dec was ₹ 6,280. Others were in-transit.
Prepare necessary Ledger Accounts in the books of Ram. [9]

Answer:

In the books of Ram

Dr. Consignment to Delhi Account Cr.

Particulars	**Amount (₹)**	**Particulars**	**Amount (₹)**
To, Goods Sent on Consignment A/c To, Y A/c – Commission To, Stock Reserve A/c ₹(6,920 – 5,220) To, Profit and Loss A/c- Profit on consignment transferred	28,400 2,394 1,700 8,686	By, Goods Sent on Consignment A/c (Loading) ₹ (28,400- 20,900) By, Shyam A/c – Sale proceeds By, Stock on Consignment A/c	7,500 26,760 6,920
	41,180		41,180

Dr. Shyam Account Cr.

Particulars	**Amount (₹)**	**Particulars**	**Amount (₹)**
To, Consignment to Delhi A/c	26,760	By, Bills Receivable A/c	22,720
To, Balance c/d (₹ 6,920 x 80%)	5,536	By, Consignment to Delhi A/c - commission	2,394
		By, Draft A/c	6,280
		By, Draft- in- Transit A/c	902
	32,296		32,296

Dr. Goods sent on Consignment Account Cr.

Particulars	**Amount (₹)**	**Particulars**	**Amount (₹)**
To, Consignment to Delhi A/c	7,500	By, Consignment to Delhi A/c	28,400
To, Trading A/c (bal.fig)	20,900		
	28,400		28,400

Workings:
Calculation of Commission:

	₹
Invoice value of goods	28,400
Less: Unsold stock	6,920
Invoice value of goods sold	21,480
Total sale proceeds	26,760
Less: Invoice value of goods sold	21,480
Surplus price	5,280
Commission @ 5% on ₹ 21,480	1,074
Add: @ 25% on ₹ 5,280	1,320
	2,394

3. **N is a small trader. He maintains no books but only an account with a bank in which all takings are lodged after meeting business expenses and his personal drawings and in which all payments for business purchases are passed through.**
You are required to ascertain his trading result for the year ended 31.03.15 and Balance Sheet as on that date from the following information:
(i) The bank statement shows deposits during the year of ₹ 12,020
and withdrawals of ₹11,850.
(ii) The Assets and Liabilities on 31.03.16 were:
Stock— ₹ 1,100;
Book Debts— ₹ 1,150;
Bank balance— ₹320;
Furniture— ₹2,000
and Trade creditors— ₹400.
(iii) In the absence of reliable information, estimates are supplied on the following matters:
(a) The Stock and Book Debts have each increased by ₹ 100 during the year. There was no purchase or sale of furniture during the year.
(b) The trade creditors were ₹ 200 on 01.04.15.
(c) During the year the personal expenses amounted to ₹ 800 and business expenses ₹ 700. [15]

Answer:

Workings—

			₹
(1)	Statement of Bank Balance		
	Balance on 31-3-16		320
	Add: Withdrawals during the year		11,850
			12,170
	Less : Deposits during the year		12,020
	Balance as on 1-4-15		150
(2)	Receipts from customers during the year—		
	Amount deposited into Bank		12,020
	Add: Expenses met out of receipts		
	Personal	800	
	Business	700	1,500
			13,520

		₹
(3)	Sales faring the year—	
	Receipts from customers as in (2)	13,520
	Add: Sundry Debtors at the end	1,150
		14,670
	Less : Sundry Debtors at the beginning (1,150-100)	1,050
		13,620

(4) Purchases during the year—

Payments to suppliers	11,850
Add: Sundry Creditors at the end	400
	12,250
Less : Sundry Creditors at the beginning	200
	12,050

(5) Capital on 1-4-15

Balance Sheet as at 1-4-15

Liabilities	₹	Asstes	₹
Sundry Creditors Capital (balancing figure)	200 4,000	Furniture Stock (1,100-100) Sundry Debtors Bank	2,000 1,000 1,050 150
	4,200		4,200

Mr. N
Trading and Profit & Loss Account
Dr. for the year ended 31-3-16 Cr.

	₹		₹
To Opening Stock Purchases " Gross Profit c/d	1,000 12,050 1,670	By Sales " Closing Stock	13,620 1,100
	14,720		14,720
To Business Expenses Net Profit—transferred to Capital	700 970	By Gross Profit b/d	1,670
	1,670		1,670

Balance Sheet as at 31-3-2016

Liabilities		₹	Assets	₹
Capital as on 1-4-15	4,000		Furniture	2,000
Add: Net Profit	970		Stock	1,100
	4,970		Sundry Debtors	1,150
Less: Drawings	800	4,170	Bank	320
Sundry Creditors		4,00		
		4,570		4,570

4. P, Q and R were carrying on a business in partnership, sharing profits and losses in the ratio of 5 : 3 : 2 respectively. The firm earned a profit of ₹3,60,000 for the accounting year ended 31st March, 2014 on which date the firm's Balance Sheet stood as follows:

Balance Sheet as at 31st March, 2014

Liabilities	₹	Assets	₹
P's Capital	**7,00,000**	**Freehold Land and Building**	**8,00,000**
Q's Capital	**5,70,000**	**Machinery**	**3,50,000**
R's Capital	**4,30,000**	**Furniture & Fixtures**	**1,02,000**
Creditors	**79,400**	**Stock**	**2,98,800**
Outstanding Expenses	**4,900**	**Debtors**	**1,60,000**
		Cash at Bank	**73,500**
Total	**17,84,300**	**Total**	**17,84,300**

P died on 31st August, 2014. According to firm's partnership deed, in case of death of a partner:-

(i) Assets and Liabilities have to be revalued by an independent valuer.

(ii) Goodwill is to be calculated at two years' purchase of average profits for the last three completed accounting years and the deceased partner's capital account is to be credited with his share of goodwill.

(iii) The share of the deceased partner in the profits for the period between end of the previous accounting year and the date of death is to be calculated on the basis of the previous accounting year's profits. Post death of P,Q & R will share profit in the ratio of 3:2.

Profits for the accounting years 2011 – 2012 and 2012 – 2013 were as follows: -

	₹
For the year ended 31st March, 2012	2,90,000
For the year ended 31st March, 2013	3,40,000

Drawings by P from 1st April, 2014 to the date of his death totaled ₹46,000.

On revaluation, Freehold Land and Building was appreciated by ₹1,00,000; Machinery was depreciated by ₹ 10,000 and a Provision for Bad Debts was created @ 5% on Debtors as on 31st March, 2014. P's sole heir was given ₹5,00,000 immediately and the balance along with interest @ 12% per annum was paid to him on 31st March, 2015.

Prepare Revaluation Account, P's Capital Account and P's Heir Account, giving important working notes. [15]

Answer:

Revaluation Account

Dr. **Cr.**

Particulars	₹	₹	Particulars	₹
To Machinery		10,000	By Freehold Land & Building	1,00,000
To Provision for doubtful debts(5% of 1,60,000)		8,000		
To Capital accounts:				
P	41,000			
Q	24,600			
R (Profit transferred)	16,400	82,000		
		1,00,000		1,00,000

P's Capital Account

Dr. **Cr.**

Particulars	₹	Particulars	₹
To Drawings	46,000	By Balance b/d	7,00,000
To P's heir (Balance transferred)	11,00,000	By Q's capital A/c	1,98,000
		By R's capital A/c	1,32,000
		By Profit and Loss Suspense A/c	75,000
		By Revaluation A/c	41.000
	11,46.000		11.46,000

P's Heir Account

Dr. **Cr.**

Date	Particulars	₹	Date	Particulars	₹
31.08.2012	To Bank A/c	5,00,000	31.08.2012	By P's Capital A/c By	11,00,000
31.03.2013	To Bank A/c	6,42.000	31.03.2013	Interest A/c	
					42,000

		11,42.000		$\left(6,00,000 \times 12\% \times \frac{7}{12}\right)$	11,42.000

Working Notes:

1. Calculation of gaining ratio of Partners Q and R

	New share	Old share	Gaining share	Sacrificing share
P		5/10		5/10
Q	3/5	3/10	$\frac{3}{5}-\frac{3}{10}=\frac{6-3}{10}=\frac{3}{10}$	
R	2/5	2/10	$\frac{2}{5}-\frac{2}{10}=\frac{4-2}{10}=\frac{2}{10}$	

2. Calculation of Goodwill

	₹
2009 - 10	2,90,000
2010 - 11	3,40,000
2011- 12	3,60,000
	9,90,000

Average Profit = 9,90,000/3 = ₹3,30,000

Good will = 3,30,000 × 2 = ₹6,60,000

Share of P in goodwill = 6,60,000 × $\frac{5}{10}$ = ₹3,30,000

Adjustment for P's share of goodwill through Q's and R's capital accounts (in their gaining ratio 3:2):

Q's capital A/c (3,30,000 × 3/5) R' s capital A/c (3,30,000 × 2/5)	₹ 1,98,000 ₹1,32,000

3. Share of P in Profits for the period between 01.04.2012 to 31.08.2012 i.e. till the date of death :

1st April, 2012 to 31st August, 2012 = 5 months

Profit for year 2011 – 12 = ₹3,60,000

Estimated profit for 5 months = 3,60,000 × $\frac{5}{12}$ = ₹1,50,000

Share of P = 1,50,000 × $\frac{5}{10}$ = ₹75,000

5. (a) From the following figures prepare accounts to disclose total profit and the profit of the two departments B and C.

Particulars	₹	Particulars	₹
Opening Stock:		**Advertising**	**8,100**
B	**15,200**	**Insurance**	**1,000**
C	**10,800**	**General Expenses**	**5,400**
Purchase:		**Discount Allowed**	**1,800**
B	**75,100**	**Accountancy Charges**	**500**
C	**69,800**	**Sales:**	
Carriage inwards	**2,860**	**B**	**1,00,000**
Salaries:		**C**	**80,000**

B	**9,000**	**Purchases returnes:**	
C	**8,500**	**B**	**1,100**
General Salaries	**11,600**	**C**	**800**
Rent and Rates	**6,000**	**Discount Received**	**1,430**

The following further information is supplied:

(i) Goods transferred from department B and C were ₹5,000. This has not yet been recorded.
(ii) General Salaries are to be allocated equally.
(iii) The area occupied is in the ratio 3:2
(iv) Insurance premium is for a comprehensive policy, allocation being inconvenient.
(v) The closing stock of the two departments were:
B — ₹17,800 and C — ₹15,600.

[8]

Answer:

Dr. Departmental Trading and Profit and Loss Account for the year ended… Cr.

Particulars	B	C	Particulars	B	C
To, Opening Stock	15,200	10,800	By, Sales:	1,00,000	80,000
To, Purchase Less Returns [B= 75,100 -1,100; C = 69,800 – 800]	74,000	69,000	By Transfer [to C Deptt.]	5,000	
To, Transfer [from B Department]	-	5,000	By, Closing Stock	17,800	15,600
To, Carriage inwards	1,480	1,380			
To, Gross Profit c/d	32,120	9,420			
	1,22,800	95,600		1,22,800	95,600
To, Salaries	9,000	8,500	By, Gross Profit b/d	32,120	9,420
To, General salaries	5,800	5,800	By, Discount received	740	690
To, Rent and taxes	3,600	2,400	By, Net Loss b/f	-	13,390
To, Advertising	4,500	3,600			
To, General Expenses	3,000	2,400			
To, Discount Allowed	1,000	800			
To, Net Profit c/f	5,960	-			
	32,860	23,500		32,860	23,500

Dr. General Profit and Loss Account for the year ended…. Cr.

Particulars	₹	Particulars	₹
To, Net Loss:		By, Net Profit:	
Department C	13,390	Department B	5,960
To, Insurance	1,000	By, Balance transferred to Balance Sheet b/f	8,930
To, Accounting charges	500		
	14,890		14,890

(b) The following details were extracted from the books of Mr. Vasudev for the period ended 31st Dec,2016. Prepare Debtors Ledger Adjustment Account in General Ledger.

Date	Particulars	₹
Jan 01	Sales Ledger Balances	24,900
	Provision for Doubtful Debts	1,800
Dec,31	Sales (including Cash Sales ₹9,000)	47,800
	Cash received from Customers	36,000
	Bills Receivable received	3,500
	Returns from Customers	700
	Bills endorsed	900
	Bills dishonoured	600
	Cheque dishonoured	250
	Bills receivable as endorsed, dishonoured	240
	Bills receivable discounted	1,000
	Bad Debts written off	100
	Interest charged to customers	40
	Bad Debts previously written off recovered	120
	Transfer from Bought Ledger	300
	Sundry Charges debited to customers	50
	Debtor's Balance (Cr.) 31.12.2015	350

[7]

Answer:

Books of Mr. Vasudev
In General Ledger
Debtors Ledger Control Account

Dr. **Cr.**

Date	Particulars	Amount (₹)	Date	Particulars	Amount (₹)
1.1.15	To Balance b/f	24,900	31.12.15	By General Ledger Control A/c	
31.12.15	To General Ledger Control A/c			Cash Received	36,000
	Credit Sales	38,800		Bill Receivable (Received)	3,500
	Bill Receivable Dishonoured	600		Sales Return	700
	Cheque Dishonoured	250		Bad Debts	100
	Endorsed Bill Dishonoured	240		Transfer from Bought Ledger	300
	Interest Charged to Customers	40			
	Sundry Charges	50			
31.12.15	To Balance c/f	350	31.12.15	By Balance c/f	24,630
		65,230			65,230

Note:

(1) No entry required for – Bill Endorsed, Bill Discounted, Provision for Doubtful Debt, Cash Sale and Bad Debts written off, now recovered.

(2) Credit Sales = Total Sales – Cash Sales = ₹ 47,800 – ₹9,000 = ₹ 38,800.

6. (a) On 1.1.2014 B Ltd. purchased a Truck from T Ltd. on hire purchase system. At the time of Agreement a sum of ₹ 1,92,000 was paid out of the cash down price of the Truck and the balance was be payable in 3 equal installments together with interest @ 5% p.a. The amount of last installment including interest was ₹ 2,68,800 .

Show the calculation of Cash Price, the interests paid and the Hire Purchase Price of the Truck. [10]

Answer:

Calculation of Cash Price, Interests and H.P. Price

		₹
31.12.2014	Last Installment Less : Interest Included $\left[\frac{5}{105} \times 2,68,800\right]$	2,68,800 12,800
	Amount Paid Towards Principal	2,56,000

The total payment on account of principal:

= Down Payment + 2,56,000 x 3 (as balance would be payable by 3 equal installments)

= ₹ 1,92,000 +(₹ 2,56,000 x 3) = ₹ 9,60,000

$\therefore$ Cash Price = ₹ 9,60,000

			₹	Total Payment (₹)
01.01.2014		Cash Price	9,60,000	
	Less :	Down Payment	1,92,000	1,92,000
			7,68,000	
31.12.2014	Add:	Interest [5% of 7,68,000]	38,400	
			8,06,400	
	Less :	Installment Paid (1) [2,56,000 + 38,400]	2,94,400	2,94,400
			5,12,000	
31.12.2015	Add:	Interest [5% of 5,12,000]	25,600	
			5,37,600	
	Less:	Installment Paid (2) [2,56,000 + 25,600]	2,81,600	2,81,600
			2,56,000	
31.12.2016	Add:	Interest [5% of 2,56,000]	12,800	
			2,68,800	
	Less :	Installment Paid (3)	2,68,800	2,68,800
		Hire Purchase Price		10,36,800

	₹
Cash Price	9,60,000
Total Interests Paid [38,400 + 25,600 + 12,800]	76,800
Hire Purchase Price	10,36,800

(b) On 31.12.2015, Sundry Debtors and Provision for Bad Debts are ₹ 50,000 and ₹ 5,000 respectively. During the year 2016, ₹ 3,000 are bad and written off on 30.9.2016, an amount of ₹ 400 was received on account of a debt which was written off as bad last year on 31.12.2016, the debtors left was verified and it was found that sundry debtors stood in the books were ₹ 40,000 out of which a customer Mr. X who owed ₹ 800 was to be written off as bad.
Prepare Bad Debt Account. Provision for bad Account. assuming that same percentage should be maintained for provision for bad debt as it was on 31.12.2015. [5]

Answer:

In the books of ……….

Dr. Bad Debt Account Cr.

Date	Particulars	Amount (₹)	Date	Particulars	Amount (₹)
2016 Sept. 30 Dec. 31	To, Sundry Debtors A/c To, Mr. X A/c	3,000 800	2016 Dec. 31	By, Provision for Bad Debt A/c	3,800
		3,800			3,800

Dr. Provision for Bad Debt Account Cr.

Date	Particulars	Amount (₹)	Date	Particulars	Amount (₹)
2016 Dec. 31	To, Bad Debt A/c " Balance c/d [10% on ₹ 39,200, (₹ 40,000 - ₹ 800)]	3,800 3,920	2016 Dec. 31	By, Balance b/d " Profit & Loss A/c -for the provision required	5,000 2,720
		7,720			7,720

Workings : Calculation of '%' of Provision for bad debts —

(5,000/50,000 × 100) = 10%

7. **(a) Ishani Ltd., used certain resources of Snigdha Ltd. In return Snigdha Ltd. received ₹20, lakhs and ₹30 lakhs as interest and royalties respectively from Ishani Ltd. during the year 2016-17. You are required to state whether and on what basis these revenues can be recognized by Snigdha Ltd. [6]**

Answer:

As per AS – 9 on revenue Recognition, revenue arising from the use by others of enterprise resources yielding interest and royalties should only be recognized when no significant uncertainty regarding its measurability or collectability exists. These revenues are recognized on following bases:

(i) **Interest:** On a time proportionate basis taking into account the amount outstanding and the rate applicable.

(ii) **Royalty:** On an accrual basis in accordance with the terms of the relevant agreement.

Here in this case interest should be recognized in the year to which it pertains, not in the year in which it is received. It is not clear from the question whether interest of ₹20 lakhs pertains to 2016-17 or it pertains to earlier year and received in 2016-17. Same is the case with royalty. If both the interest and royalty accrue in 2016-17, it should be recognized in this year only.

(b) The Life Fund of a Life Assurance Ltd. was ₹90,00,000 as on 31st March, 2016. 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. [9]

Answer:

(A) Valuation Balance Sheet of Life Assurance Ltd. as at 31st March, 2016

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

8. (a) 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

(b) Mr. M owed ₹ 3,000 on 1st Jan, 2017 to Mr. S. The following are the transactions that took place between them during 2017. It is agreed between the parties that interest @ 6% p.a. is to be calculated on all transactions.

2017			**₹**
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 2017. Ascertain the amount to be paid to the earnest rupee. Ignore days of grace. [7]

Answer:

Mr. M Account Current with Mr. S

for the period ended 15th March 2017

Date	Particulars	Amount	Days	Product	Date	Particulars	Amount	Days	Product
2017					2017				
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 By Balance c/d	3,060	—	3,66,000
		6,560		3,87,500			6,560		3,87,500

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

Single Payment on 15.3.2017 = ₹ 3,060

9. Write short notes on any three of the following: [3x5=15]

(a) Basic features of a Joint Venture;
(b) Types of Debts;
(c) Features of Receipts and Payments Account;
(d) Money Measurement Concept.

Answer:

(a) Basic features of a Joint Venture business are :

(i) It is done for a specific purpose and hence has a limited duration.
(ii) The partners are called co-venturers.
(iii) The profit or loss on joint venture is shared between the co-venturers in the agreed ratio.
(iv) The co-venturers may or may not contribute initial capital.
(v) The JV is dissolved once the purpose of the business is over.
(vi) The accounts of the co-venturers are settled immediately on dissolution.
(vii) A joint venture has no name.

(b) Types of Debts:

The amount which is receivable from a person or a concern for supplying goods or services is called Debt. Debts may be classified into :
(i) Bad debts; (ii) Doubtful debts and (iii) Good debts

(i) Bad Debts : Bad debts are uncollectable or irrecoverable debt or debts which are impossible to collect is called Bad Debts. If it is definitely known that amount recoverable from a customer cannot be realized at all, it should be treated as a business loss and should be adjusted against profit. In short, the amount of bad debt should be transferred to Profit and Loss Account for the current year to confirm the principles of matching.

(ii) Doubtful Debts: The debts which will be receivable or cannot be ascertainable at the date of preparing the final accounts (i.e., the debts which are doubtful to realise) is known as doubtful debts. Practically it cannot be treated as a loss on that particular date, as such, it cannot be written off. But, it should be charged against Profit and Loss Account on the basis of past experience of the firm.

(iii) Good Debts: The debts which are not bad i.e., there is neither any possibility of bad debts nor any doubts about its realization, is called good debts. As such, no provision is necessary for it.

(c) Features of Receipts and Payments Account:

a. It is an Account which contains all Cash and Bank transactions made by a nonprofit organization during a particular financial period.
b. It starts with the opening balances of Cash and Bank. All Cash Receipts both capital & revenue during the period are debited to it.
c. All Cash Payments both capital & revenue during the period are credited to this Account. It ends with the closing Cash and Bank Balances.
d. While recording the Cash and Bank transactions all entries are made on Cash Basis.
e. It is a summary of Cash Book.
f. It follows Real Account.

(d) Money Measurement Concept:

A business transaction will always be recoded if it can be expressed in terms of money. The advantage of this concept is that different types of transactions could be recorded as homogenous entries with money as common denominator. A business may own ₹ 3 Lacs cash, 1500 kg of raw material, 10 vehicles, 3 computers etc. Unless each of these is expressed in terms of money, we cannot find out the assets owned by the business. When expressed in the common measure of money, transactions could be added or subtracted to find out the combined effect. In the above example, we could add values of different assets to find the total assets owned. The application of this concept has a limitation. When transactions are recorded in terms of money, we only consider the absolute value of the money. The real value of the money may fluctuate from time to time due to inflation, exchange rate changes, etc. This fact is not considered when recording the transaction.