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 x 10=20]**

(i) On 01.01.2012, M/s. Three Star and Co. Ltd. purchased machinery for ₹5,00,000. Subsequently, ₹1,00,000 was paid for installation. Assuming that the rate of depreciation was 10% on Reducing Balance Method, determine the Closing Book Value of the Machine as at 31.12.2014.

Answer:
Closing Book Value of the Machine as at 31.12.2014 ₹ 4,37,400.

Year	Opening Book Value ₹	Rate	Depreciation	Closing Book Value – ₹
2012	6,00,000	10%	60,000	5,40,000
2013	5,40,000	10%	54,000	4,86,000
2014	4,86,000	10%	48,600	4,37,400

(ii) A trader acquired Machinery for ₹1,00,000 but included the same in purchase account. He paid ₹20,000 to a supplier which was omitted to be recorded in the books. State the types of errors and pass journal entries to rectify the errors.

Answer:
The first error is error of principle. The capital expenditure has been claimed as revenue expenditure. The second one is error of omission.

Journal Entries

Particulars		Dr. (₹)	Cr. (₹)
Machinery A/c	Dr.	1,00,000	
To Purchase A/c			1,00,000
[Being error in purchase A/c being rectified]			
Sundry Creditors A/c	Dr.	20,000	
To Cash A/c			20,000
[Being the omission to record the transaction now being recorded]			

(iii) Salary debited to Income and Expenditure Account for the year was ₹96,000. Outstanding salary paid in the beginning of the year and the outstanding salary at the end of the year was ₹12,000 and ₹15,000 respectively. Compute the amount of Salary to be shown in Receipts and Payments Account.

Answer:

Dr. Salary Account Cr.

Particulars	₹	Particulars	₹
To, Receipts and Payments A/c (balance in figure)	93,000	By, Balance b/d	12,000
		By, Income and Expenditure	96,000
To, Balance c/d	15,000		
	1,08,000		**1,08,000**

(iv) Working capital of a company is ₹ 21,28,000 and total debts are ₹ 42,50,000. If the company's long term debts are ₹ 27,30,000 then calculate the current ratio.

Answer:

Current Liabilities = Total debts – Long Term debts = 42,50,000 – 27,30,000 = ₹ 15,20,000.
Current Assets = W.C. + C.L. = 21,28,000 + 15,20,000 = 36,48,000.

Current Ratio = $\frac{\text{C.A.}}{\text{C.L.}} = \frac{36,48,000}{15,20,000}$ = 2:4:1.

(v) Calculate the interest income to be recognized for Save Here Bank Ltd. for the year ended 31.03.2013 from the following information: **(₹ in Crores)**

Interest	Total Interest collected	Earned but not collected	
		On PA	On NPA
Interest on Cash Credit	**5,000**	**2,000**	**2,100**
Interest on Overdraft	**1,500**	**500**	**1,750**
Interest on Term Loan	**5,000**	**200**	**2,500**

Answer:

		(₹ in Crores)
Interest on Cash Credit	(5,000 + 2,000)	= 7,000
Interest on Overdraft	(1,500 + 500)	= 2,000
Interest on Term Loan	(5,000 + 200)	= 5,200
Interest income to be recognized		14,200

(vi) Discuss the treatment of Tread Discount and Quantity Rebates under AS – 9.

Answer:

Trade Discount and Volume Rebates received do not fall within the definition of revenue, since they represent a reduction of cost.

Hence, these discounts and volume rebates given should be deducted to determine revenue.

(vii) Calculate the Gross Profit lost during the claim Period if the Turnover lost during the Claim Period is ₹ 37,50,000 and the agreed G.P. Ratio is 20%.

Answer:

Gross Profit lost = Turnover lost during the claim period × Agreed G.P. Ratio

= ₹ 37,50,000 × 20% = ₹7,50,000.

(viii) On 1st April, "A" purchased 12% debentures in S Ltd. for ₹6,50,00. The face value of these debentures were ₹6,00,000. Interest on debentures falls due on 30th June and 31st December. Compute the cost of acquisition of debentures.

Answer:

Computation of Cost of Acquisition of Debentures

Particulars	₹
Cum-interest purchase price of debentures	6,50,000
Less: Interest from the last date of payment of interest to the date of purchase [₹6,00,000 × 3/12 × 12%]	18,000
Cost of debentures at the time of acquisition	6,32,000

(ix) Namitha Ltd. furnished the following particulars:
Debtors' ledger includes ₹66,000 due from Mitra Ltd. whereas creditors ledger include ₹39,600 due to Mitra Ltd.
Journalise the above.

Answer:

In the books of Namitha Ltd.
Journal (without narration)

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
	Creditors Ledger Adjustment A/c Dr. To Debtors ledger Adjustment A/c		7,200	 7,200

(x) 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.

2. (Answer any two)

(a) In 2013-14 the stock of a firm was physically verified on 27th March and was valued at ₹ 2,00,000. Its financial year however ended on 31.03.2014.
On scrutiny you find the following details of transactions between 28.03.2014 and 31.03.2014:
(i) The firm had sent goods to its agent for selling such goods at the latter's working place. The goods were dispatched at a profit of 20% on cost but those of the value of ₹ 36,000 remained unsold.
(ii) Purchases between the above mentioned dates amounted ₹ 70,000. However, out of this goods worth ₹ 20,000 were not delivered till 6th of April, 2014.
(iii) The firm makes a profit of 25% on cost although it had to sell goods costing ₹ 9,000 for ₹ 7,000 only.

(iv) Sales for the period were ₹ 1,08,000 of which goods worth ₹ 18,000 sent on approval. Half of these goods have been returned before 31.03.2014 while no intimation has been received for the rest.

Ascertain the value of stock on 31.03.2014. [4]

Answer:

Statement of valuation of stock as on 30.06.2013

Particulars	Amount (₹)	Amount (₹)
Value of Physical Stock on 27.03.2014		2,00,000
Add: 1. Purchase between 28.03.2014 and 31.03.2014		
(a) Goods Physically received [₹ 70,000 – ₹ 20,000]	50,000	
(b) Goods not received till 31.03.2014 but lying in transit	20,000	
2. Goods lying unsold with agent (at cost)[₹ 36,000 – 1/5th of ₹ 36,000]	28,800	
3. Stock lying unconfirmed on sale or return basis [S.P. of such goods = ½ of ₹ 18,000 = ₹ 9,000 Cost = 4/5 × ₹ 9,000 = ₹ 7,200]	7,200	1,06,000
		3,06,000
Less: Sales between 28.03.2014 and 31.03.2014		
1. Abnormal Sales [Note 1]	9,000	
2. Other Sales [Note 2]	73,600	(-)82,600
Value of Stock on 31.03.2014		2,23,400

Working Notes:

(i) Abnormal goods have been sold at a loss after 27.04.2014 it remained in the stock at cost ₹ 9,000 [and not at ₹ 7,000]

(ii) Other Sales

Particulars	(₹)	(₹)
Actual Sales given		1,08,000
Less: (a) Sale of Abnormal Goods [S.P. of such goods]	7,000	
(b) Goods returned under sale or return [1/2 of ₹ 18,000]	9,000	16,000
		92,000
Less: Profit included [1/5th ₹ 92,000]		(-) 18,400
		73,600

(iii) Please note that here stock is being computed on a date subsequent to date of stock taking.

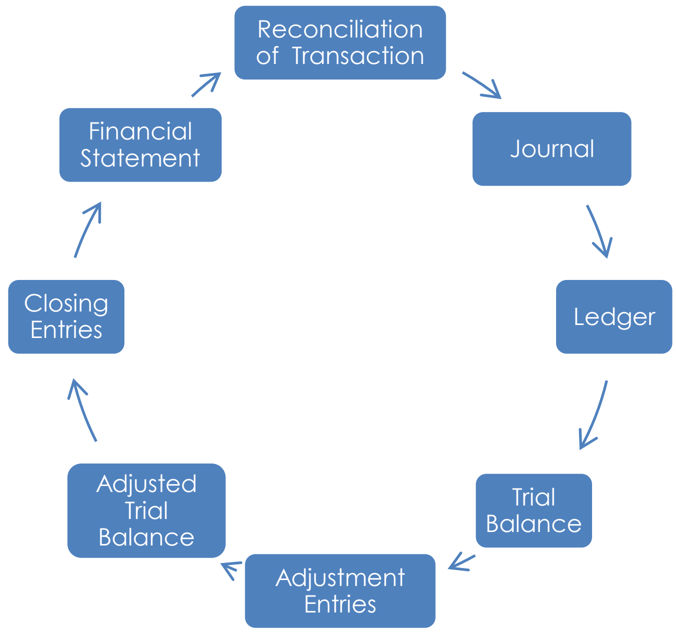
(b) Write a note on accounting Life Cycle. [4]

Answer:

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 Cycle

The steps or phases of accounting cycle can be developed as under:



ACCOUNTING 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.

(c) On 30th Sept. 2014 my Cash Book (Bank Column of Account No. 1448870) showed a bank Overdraft of ₹ 49,350. On going through the Bank Pass Book for reconciling the Balance , I found the following:

(i) Out of cheques drawn on 26th Sept. those for ₹3,700 were cashed by the bankers on 2nd October.

(ii) A crossed cheque for ₹ 750 given to Amrita was returned by her and a bearer cheque was issued to her in lieu on 1st Oct.

(iii) Cash and cheques amounting to ₹3,400 were deposited in the bank on 29th Sept, but cheques worth ₹1,300 were cleared by the Bank on 1st Oct. and one cheque for ₹ 250 returned by him as dishonoured on the latter date.

(iv) My bankers seem to have given me wrong credit for ₹500 paid in by me in No.1226650 account and a wrong debt in respect of a cheque for ₹300 drawn against my No. 1226650 account. [4]

Answer:

Bank Reconciliation Statement as at 30.09.2014

Particulars	Plus Items ₹	Minus Items ₹
Overdraft as per Cash Book Cheques deposited in the bank but not cleared (₹1,300+₹250) Cheques issued against A/c No. 1226650 but wrongly debited by the bank to this A/c Cheques issued but not presented for payment Crossed cheque issued to Amrita not presented for payment Amount paid in A/c No 1226650 by the bank wrongly to this A/c	 3,700 750 500	49,350 1,550 300
	4,950	51,200
Overdraft as per Pass Book		46,250

3. (Answer any two)

(i) Show what entries would be passed by the Head Office to record the following transactions in their books:

- **Goods amounting to ₹ 500 transferred from Kolkata Branch to Rangoon Branch under instructions from Head Office.**
- **Depreciation of Branch Fixed Assets when such accounts are opened in the Head Office books amounted to ₹ 1,000.**
- **A remittance of ₹ 3,000 made by the Rangoon Branch to the Head Office on 26th December and received by the Head Office on 4th January.**

N.B.: Assume that the yearly closing date was 31st December. [3]

Answer:

In the Books of Head Office
Journal

Date	Particulars	L. F.	Debit (₹)	Credit (₹)
	(a) Rangoon Branch A/c Dr. To Kolkata Branch A/c (Goods transferred from Kolkata Branch to Rangoon Branch)		500	 500
	(b) Branch A/c Dr. To Branch Fixed Assets A/c (Depreciation provided on Fixed Assets)		1,000	 1,000
	(c) Remittance-in-transit A/c Dr. To Rangoon Branch A/c (Adjustment made for remittance-in-transit from Rangoon Branch)		3,000	 3,000

(ii) Mithil Mukherjee sells two products manufactured in her own factory. The goods are made in two departments, X and Y, for which separate sets of accounts are maintained. Some of the manufactured goods of department X are used as raw materials by department Y, and vice versa.
From the following particulars, you are required to ascertain the total cost of goods manufactured in department X and Y:

Particulars	Department X	Department Y
Total units manufactured	10,00,000	5,00,000
Total cost of manufactured	₹10,000	₹5,000

Department X transferred 2,50,000 units to Department Y and the latter transferred 1,00,000 units to the former. [7]

Answer:

Suppose a is the total cost of Department X, and
b is the total cost of Department Y

$$a = ₹10,000 + \frac{1}{5} b$$

$$b = ₹5,000 + \frac{1}{4} a$$

$$\text{or, } a = ₹10,000 + \frac{1}{5}\left(5,000 + \frac{1}{4}a\right)$$

$$= ₹10,000 + 1,000 + \frac{1}{20}a$$

$$= ₹11,000 + \frac{1}{20}a$$

$$\text{Or, } 20a = ₹2,20,000 + a$$

$$\text{Or, } 19a = ₹2,20,000$$

$$= \frac{2,20,000}{19}$$

$$= ₹11,579$$

$$\text{Now, } b = ₹5,000 + \frac{1}{4}a$$

$$= ₹5,000 + \frac{1}{4} \times `11,579$$

$$= ₹5,000 + ₹2,895$$

$$= ₹7,895$$

Total Cost goods manufactured

Particulars	Amount (₹) Department X	Amount(₹) Department Y
Cost (already given)	10,000	5,000
Add: Cost of goods transferred	1,579	2,895
	11,579	7,895
Less: Transfer to department	2,895	1,579
Net Cost of Goods manufactured	8,684	6,316

(iii) Define Partnership as per Partnership Act,1932. **[2]**

Answer:

According to section 4 of the Partnership Act, 1932 a Partnership is "the relation between persons who have agreed to share the profits of a business carried on by all or any one of them acting for all."

(b) (i) Calculate cash Flows from Operating Activities from the following :

Particulars	₹	Particulars	₹
Cash Purchases	**25,000**	**Rent Paid**	**4,000**
Cash Paid to Suppliers	**40,000**	**Trading commission Received**	**2,500**
Cash Sales	**90,000**	**Income – Tax Refund Received**	**1,500**
Cash Received from Debtors	**25,000**	**Trading Commission Paid**	**500**
Salaries and Wages paid	**5,000**	**Insurance Proceeds from natural Disaster**	**2,500**
Manufacturing Expenses paid	**2,500**		
Income tax paid	**4,000**		
Office & Administration Expenses paid	**5,000**		
Selling and Distribution Expenses	**2,500**		

[5]

Answer:

Particulars	₹	₹
Operating Receipts: Cash Sales	90,000	
Cash Received from Debtors	25,000	
Trading Commission Received	2,500	**1,17,500**
Less: Operating Expenses Cash Purchase	25,000	
Cash Paid to Creditors	40,000	
Trading commission paid	500	
Salaries and Wages	5,000	
Manufacturing Expenses	2,500	
Office and Administration Expenses	5,000	
Selling and Distribution Expenses	2,500	**80,500**
		37,000
Less: Income Tax Paid (4,000 -1,500)		2,500

Cash Flow before Extra ordinary Activities		**34,500**
Add: Insurance proceeds for natural disaster		2,500
Net Cash flows from operating activities		**37,000**

(ii) On 1.1.2012 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. [7]

Answer:

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

		₹
31.12.2014	Last Installment	2,68,800
	Less : Interest Included $\left[\frac{5}{105} \text{ x } 2,68,800\right]$	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
∴ Cash Price = ₹ 9,60,000

			₹	Total Payment (₹)
01.01.2012		Cash Price	9,60,000	
	Less :	Down Payment	1,92,000	1,92,000
			7,68,000	
31.12.2012	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	
31.12.2013	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	
31.12.2014	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

C (i) X, Y and Z are equal partners. They decided to dissolve the firm on 31.12.2014. On that date their Balance Sheet was:

Balance Sheet

Liabilities	₹	₹	Assets	₹
Creditors		14,000	Cash at Bank	4,000
X's Loan A/c		6,000	Investments	5,000
Capital Accounts:			Other Assets	66,000
X	30,000			
Y	20,000			
Z	5,000	55,000		
		75,000		75,000

Additional Information:
Investments were taken over by X against his loan in full settlement.
The other assets realized 50% of their book value. The liquidation expenses amounted to ₹ 3,600.
A dispute with a creditor was settled reducing his claims by ₹ 600.
Z became insolvent and contributes 25 paise in the rupee towards the debts of the firm.
Show the necessary accounts as per (i) Garner vs. Murray principle, and (ii) Indian Partnership Act. [8]

Answer:

In the books of X, Y & Z
Realization Account

Dr. **Cr.**

Particulars	Amount (₹)	Particulars		Amount (₹)
To Sundry Assets:		By Creditors A/c		14,000
Investments	5,000	By Bank-Assets realized @ 50%		33,000
To Sundry Assets	66,000	By X's Loan A/c		6,000
To Bank – Expenses	3,600	By X's Capital (Investment)		5,000
Creditors	13,400	By Capital A/c		
To X's Capital A/c	6,000	Loss on Realization		
		X - 1/3	12,000	
		Y - 1/3	12,000	
		Z - 1/3	12,000	36,000
	94,000			96,000

(i) According to Garner vs. Murry:

Capital Account

Dr. **Cr.**

Particulars	X	Y	Z	Particulars	X	Y	Z
To Realizations A/c				By Balance b/d	30,000	20,000	5,000
-Investment	5,000	---	---	By Bank A/c	12,000	12,000	---
To Realization A/c				By Realization A/c	6,000	---	---
-Loss	12,000	12,000	12,000	By Bank (25 paise)	---	---	1,750
To Z's Capital A/c (3:2)	3,150	2,100	---	By X's Capital A/c	---	---	3,150
To Bank A/c				By Y's Capital A/c	---	---	2,100
-Final payments	27,850	17,900	---				
	48,000	32,000	12,000		48,000	32,000	12,000

Bank Account

Dr. **Cr.**

Particulars	₹	₹	Particulars	₹	₹
To Balance b/d		4,000	By Creditors A/c		13,400
To Realization A/c			By Realization – Expenses		3,600
-Assets realized		33,000	By Capital Accounts		
Capital Accounts:			X	27,850	
X	12,000		Y	17,900	45,750
Y	12,000				
Z	1,750	25,750			
		62,750			62,750

(ii) According to Indian Partnership Act:

Capital Account

Dr. **Cr.**

Particulars	X	Y	Z	Particulars	X	Y	Z
To Realization A/c				By Balance b/d	30,000	20,000	5,000
-Investment	5,000	---	---	By Realization A/c	6,000	---	---
To Realization A/c				By Bank (25 paise)	---	---	1,750
-Loss	12,000	12,000	12,000	By X's Capital A/c	---	---	3,150
To Z's Capital A/c	3,150	2,100	---	By Y's Capital A/c	---	---	2,100
To Bank A/c							
-Final payments	15,850	5,900	---				
	36,000	20,000	12,000		36,000	20,000	12,000

Bank Account

Dr. **Cr.**

Particulars	₹	₹	Particulars	₹	₹
To Balance b/d		4,000	By Creditors A/c		13,400
To Realization A/c			By Realization – Expenses		3,600
-Assets realized		33,000	By Capital Accounts		
Capital Accounts:			X	15,850	
Z		1,750	Y	5,900	21,750
		38,750			38,750

(ii) On March 31, 2014, Ping-Pong Ltd. traded in an old machine having a carrying amount of ₹ 3,36,000, and paid cash difference of ₹ 1,20,000 for a new machine having a total cash price of ₹ 4,10,000. On March 31, 2014, what amount of loss should Ping-Pong Ltd. recognize on this exchange? [4]

Answer:

As per AS-10, when a fixed asset is acquired in exchange or in part exchange for another asset, the cost of the asset acquired should be recorded either at fair market value or at the net book value of the asset given up, adjusted for any balancing payment or receipt of cash or other consideration. The cash price of the new machine represents its fair market value (FMV). The FMV of the old machine can be determined by subtracting the cash portion of the purchase price (₹ 1,20,000) from the total cost of the new machine. ₹4,10,000 - ₹1,20,000 = ₹ 2,90,000. Since the book value of the machine ₹ 3,36,000 exceeds its FMV on the date of the trade in ₹ 2,90,000, the difference of ₹ 46,000 must be recognized as a loss, however, if the FMV of the old machine had exceeded its book value, the gain would not be recognized.

4. (Answer any two)

(a) Rectify or adjust the following affecting ledgers maintained under self-balancing system:
(i) Purchase Day Book under cast by ₹2,000.
(ii) Sales to Mr. B of ₹2,600 was entered in the books as ₹260.
(iii) A cheque of ₹5,000 received from Milan & Co. was recorded as received from Mill One & Co.
(iv) A debit balance of ₹300 in the account of Pritam in Sales Ledger was set off against his account in the creditors ledger. But this has not been recorder. [4]

Answer:

Particulars	Dr. (₹)	Cr. (₹)
(i) General Ledger Adjustment A/c Dr. To, Purchase Ledger Adjustment A/c (in General Ledger)	2,000	 2,000
(ii) Sales Ledger Adjustment A/c (in General Ledger) Dr. To, General Ledger Adjustment A/c (in Sales Ledger)	2,340	 2,340
(iii) No Entry		
(iv) Creditors Ledger Adjustment A/c (in General Ledger) Dr. To, General Ledger Adjustment A/c (in Debtors Ledger) Dr.	300	 300
General Ledger Adjustment A/c (in Debtors Ledger) Dr. To, Debtors Ledger Adjustment A/c (in General Ledger)	300	 300

(b) A firm keeps its sold and bought ledgers on self-balancing system. From the following particulars, prepare the adjustment account in the sold ledger.

Trade Debtors on 1st April, 2013—₹ 62,000; Trade Creditors on 1st April, 2013—₹ 25,000; Credit Purchases— ₹ 1,03,000; Credit Sales—₹ 1,34,000; Cash received from trade debtors—₹ 78,000; Returns Inward— ₹ 3,000; Acceptances given—₹ 40,000; Returns Outward—₹ 2,500; Acceptances from trade debtors dishonoured— ₹ 5,000; Discount allowed to trade debtors—₹ 1,000; Bad Debts written off—₹ 2,000; Bad Debts written off in the previous years now recovered—₹ 5,000; Trade Creditors on 31st March, 2014 — ₹ 10,500; Trade Debtors on 31st March, 2014 — ₹ 1,17,000. [4]

Answer:

In the Sold Ledger of…..
General Ledger Adjustment Account

Dr. **Cr.**

Date	Particulars	Amount	Date	Particulars	Amount
31.03.14	To, Sold Ledger Adjustment A/c:		01.04.13	Balance b/d	62,000
	Cash Received	78,000		By, Sold Ledger Adjustment A/c:	
	Returns Inward	3,000		Credit Sales	1,34,000
	Discount Allowed	1,000		Acceptance from	
	Bad Debts	2,000		Debtors Dishonoured	5,000
	To, Balance c/d	1,17,000			
		2,01,000			2,01,000

(c) 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.

5. (Answer any two)

(a) Nilima Construction Ltd. undertook a contract on 1st January to construct a building for ₹80 Lakhs. The Company found on 31st March that it had already spent ₹58,50,000 on the construction. Prudent estimate of additional cost for completion was ₹31,50,000.
What amount should be charged to revenue and what amount of Contract Value to be recognised as Turnover in the accounts for the year ended 31st March as per provision of AS – 7 (revised)? [4]

Answer:

Estimated total contract cost	Cost till date+ Further Costs = 58,50,000 + 31,50,000	90,00,000
Percentage of Completion	Cost incurred till date ÷ Estimated total costs = 58.50 ÷ 90.00	65%
Total Expected Loss to be provided for	Contract Price – Total Costs = 80 – 90	10,00,000
Contract Revenue	65% of 80 lakhs	₹52,00,000
Less: Contract Costs		₹58,50,000
Loss on Contract		₹6,50,000
Less: Further provision required in respect of expected loss		(₹3,50,000)
Expected loss recognised		₹10,00,000

The relevant disclosure under AS -7 is as follows —

Particulars	**₹ in lakhs**
(a) Contract Revenue	52,00,000
(b) Cost Expense Charged	58,50,000
(c) Provision for future losses to be charged	3,50,000

(b) Amra Sobai Society receives an entrance fee of ₹ 10,000 from new members. Members are also required to pay a membership fee of ₹3,000 at the time of entrance. The membership fee permits only membership and all other services or products are paid for separately. Give the accounting treatment for entrance fees and membership fees. [4]

Answer:

(i) Entrance Fees: Entrance Fee of ₹10,000 received from new members should be capitalised.

(ii) Membership Fees: If the Membership Fee permits only membership and all another services or products are paid for separately, or there is a separate annual subscription, the fee should be recognised when received. Hence, the amount of ₹3,000 should be treated as revenue when received.

(c) Discuss the Development Stage of an Internally Generated Software. [4]

Answer:

Internally generated software arising at the development stage should be recognized as an asset if, and only if, an enterprise can find out all of the following:

The intention of the enterprise to complete the internally generated software and use it to perform the functions needed.

The intention to complete the internally generated software can be demonstrated if the enterprise commits to the funding of the software project:

(i) The technical feasibility of installing the internally generated software.

(ii) The ability of the enterprise to use the software;

(iii) The probable usefulness of and economic benefits from the software.

(iv) The availability of adequate technical, financial and other resources to complete the development and to use the software; and

(v) The capacity to measure the expenditure attributable to the software during its development.

Examples of development activities in respect of internally generated software include:

Detailed programme design for the software considering product function, feature, and technical requirements to their most detailed, logical form and is ready for coding.

6. (Answer any two)

(a) (i) Prepare an Account Current to be received by A to M on 30th June 2013 considering rate of interest @ 5% p.a. from the given particulars:

2013		**₹**
Jan. 1	**M owes to A**	**4,000**
Feb. 1	**M remits Cash**	**2,000**
Mar. 1	**A sold goods to Y (due on May 1)**	**8,000**
Mar. 31	**M sends a bill (due on Oct. 1)**	**2,000**
May 30	**M purchased goods (due on Aug.31)**	**40,000**

[6]

Answer:

M in Account Current with A

Dr. **Cr.**

Date	Particulars	Amount ₹	Months to June 30	Product ₹	Date	Particulars	Amount ₹	Months to June 30	Product ₹
2013									
Jan.1	To, Balance b/d	4,000.00	6	24,000.00	Feb.1	By, Cash A/c	2,000.00	5	10,000.00
Mar.1	To, Sales A/c	8,000.00	2	16,000.00	Mar.1	By, B/R A/c	2,000.00	(-) 3	(-)6,000.00
May.30	To, Sales A/c	40,000.00	(-)2	(-)80,000.00	June 30	By, Interest A/c	183.33	-	-
					June 30	By, Balance c/d	47,816.67		
		52,000.00		(-)40,000.00			52,000.00		(-)4,000.00
July 1	To, Balance b/d	47,816.67							

*** Interest is to be calculated on ₹44,000 (i.e., - ₹40,000-(+)₹4,000)**

@5% p.a. for one month, i.e. ₹(₹44,000× $\frac{5}{100} \times \frac{1}{12} = 183.33)$

(ii) M Ltd. acquires 2000, 12% Debenture of S Ltd. on 1.4.2013 at ₹ 105 Cum-interest (face value of debentures ₹ 100). Interest is paid on 30th June and 31st December every year. Accounts are closed on 31st December 2013. Ascertain the amount of interest and cost of debentures. [2]

Answer:

Cost of Investment

	₹
Total payments to be made – 2000 × ₹ 105	2,10,000
Less: Inclusion of Interest to be excluded:	
(from 1.1.2013 to 1.4.2013 i.e., 3 months)	
Or ₹ 2,00,000 x (12/100)×(3/12)	6,000
	2,04,000

Cost of Investment ₹ 2,04,000 and the Interest ₹ 6,000.

(b) (i) On 1.1.2014 , X draws a bill at 3 months on Y for ₹2,000. Y accepts it. X immediately discounts the bill at 5% p.a. On 15.3.2014 , Y being unable to meet the bill offers X ₹ 1,500 and requests him to draw on him another bill for 3 months for the balance including interest therein @ $7\frac{1}{2}\%$. X accepts the agreement and, on maturiry, Y meets the bill. [6]

Answer:

Date	Particulars	L.F	Debit	Credit
2014 Jan. 1	X A/c Dr. To, Bills Payable A/c (Bill accepted by Y for 3 months)		2,000	 2,000
Mar. 15	Bills Payable A/c Dr.		2,000	

	To, X A/c (Bill discounted on maturity)			2,000
"	X A/c Dr. To, Cash A/c (Cash paid to X as a part payment of the bill dishonoured)		1,500	 1,500
"	Interest A/c Dr. To, X A/c (Interest payable to X on ₹ 500 @ $7\frac{1}{2}$ % p.a. for 3 months)		9.37	 9.37
"	X A/c Dr. To, Bills Payable A/c (Fresh bill accepted for the balance plus interest for 3 months)		509.37	 509.37
June 18	Bills Payable A/c Dr. To, Cash A/c (Fresh bill honoured at maturity)		509.37	 509.37

(ii) Discuss the accounting treatment relating to the calculation of closing stock, if Joint Ventures is running for more than one accounting period. [2]

Answer:

Joint Ventures running for more than one accounting period:

If a joint venture runs for more than one accounting period, it poses a special problem of calculation of the closing stock. The stock should be valued on the basis of basic cost plus proportionate non-recurring expenses and it should be shown in the memorandum joint venture account on the credit side at the end of the year and on the debit side of the memorandum joint venture account of the next year. The other accounts should be made in the usual manner. However, if the co-ventures are interested in an interim settlement at the end of the first year, they should bring in their proportionate share in the value of the closing stock in their respective 'Joint Venture with Co-Venturer Account' and finally settle their account. The share of stock should be carried forward and shown on the debit side of the 'Joint Venture with Co-venturer Account'.

(c) On 20th July, 2014 the godown and the business premises of a merchant were affected by fire. From the accounting records salvaged, the following information is made available to you:

Stock of Goods on 1st April, 2013	**₹1,00,000**
Stock of Goods at 10% lower than cost on 31st March, 2014	**₹1,08,000**
Purchases of Goods for the year 1st April, 2013 to 31st March, 2014	**₹4,20,000**
Sales for the same period	**₹6,00,000**
Purchases less returns from 1st April, '14 to 20th July, 2014	**₹1,40,000**
Sales Returns for the above period	**₹3,10,000**

Sales up to 20th July, 2014 included ₹40,000 for which goods had not been despatched. Purchases up to 20th July, 2014 did not include ₹20,000 for which purchase invoices had not been received from suppliers, though goods had been received at the godown.

Goods salvaged from the accident were worth ₹12,000 and these were handed over to the insured.

Ascertain the value of the claim for the loss of goods/stock which could be preferred to the insurer. [8]

Answer:

Trading Account for the year ended 31.03.2014

Dr. **Cr.**

Particulars	**Amount (₹)**	**Amount (₹)**	**Particulars**	**Amount (₹)**	**Amount (₹)**
To Opening Stock		1,00,000	By Sales		6,00,000
To Purchases		4,20,000	By Closing Stock	1,08,000	
To Gross Profit		2,00,000	Add: Under Valuation $\left[\frac{10}{90} \text{ of } 1,08,000\right]$	12,000	1,20,000
		7,20,000			7,20,000

Rate of Gross Profit in 2013 -14 =

$$\frac{₹2,00,000}{₹6,00,000} \times 100 = 33\frac{1}{3}\%$$

The net purchases in current year should be ₹ 1,40,000 + ₹ 20,000
Similarly Sales = ₹ 3,10,000 – ₹ 40,00.0 = ₹ 2,70,000

Memorandum Trading Account for the from 01.04.14 to 20.07.14

Dr. **Cr.**

Particulars	**Amount (₹)**	**Amount (₹)**	**Particulars**	**Amount (₹)**	**Amount (₹)**
To Opening Stock		1,20,000	By Sales		2,70,000
To Purchases		1,60,000	By Closing Stock (Bal. fig.)		1,00,000
To Gross Profit $\left[\frac{1}{3} \text{ of } ₹2,70,000\right]$		90,000			
		3,70,000			3,70,000

Statement of Claim for Loss of Stock

	₹
Estimated Value of Stock on 20.7.14	1,00,000
Less: Value of Salvaged Stock	12,000
Stock Lost by Fire	88,000

7. (Answer any two)

(a) (i) The Life Insurance Fund of Bharat Life Insurance Co. Ltd. was ₹25 lakhs on 31.03.2014. Its actuarial valuation on 31.03.2014 disclosed a net liability of ₹21.25 lakhs. An interim bonus of ₹40,000 was paid to the policy holders during previous two years. It is now proposes to carry forward ₹75,000 and to divide the balance between policy holders and the shareholders.

Show the — Valuation Balance Sheet; Net profit for the two-year period; and Distribution of profits. [5]

Answer:

Valuation Balance Sheet as on 31.3.2014

Liabilities	₹	Assets	₹
Net liabilities	21,25,000	Life Insurance Fund	25,00,000
Net profit	3,75,000		
	25,00,000		25,00,000

Net profits for two year period.

	₹
Profit as per valuation balance sheet-	3,75,000
Add : Interim bonus paid	40,000
Net Profit	4,15,000

Distribution of profits:

	₹
Net profits -	4,15,000
Less : Amount proposed for carry forward	75,000
	3,40,000
Share of policy holders – 95% of 3,40,000	3,23,000
Less : Interim bonus	40,000
Amount due to policy holders	2,83,000
Share of shareholders (5% of 3,40,000)	17,000

(ii) 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.

Functions: The functions of the State Commission include determining the tariff of generation, supplying, 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.

(b) Calculate depreciation as per 2009 regulations from the following information of PPP Power generation Project

Date of commercial operation/Work Completed Date	**11-Jan-1996**
Beginning of Current year	**1-Apr-2011**
Useful life	**35 years**

(Figures in ₹ Crores)

1.	**Capital Cost at beginning of the year 2011-12**	**222.000**
2.	**Additional Capltiisation during the year: 2012-13**	**10.560**
	2013-14	**29.440**
3.	**Value of Freehold Land**	**12.000**
4.	**Depreciation recovered up to 2009-10**	**48.600**
5.	**Depreciation recovered in 2010-11**	**5.400**

Note: Capital Cost and Accumulated Depreciation at the beginning of the year are as per tariff order FY 2011-12 **[8]**

Answer:

Name of the Power Station: PPP Power Generation Project

Date of commercial operation/Work Completed Date: 11-Jan-1996

Beginning of Current year: 1-Apr-2011

Useful life: 35 years

Remaining Usefullife: 20 years

Statement showing the Calculation of Depreciation

Particulars	**2011-12**	**2012-13**	**2013-14**
A. Opening Capital Cost	222.00	222.00	232.56
B. Additional Capital Cost	0.00	10.56	29.44
C Closing Capital Cost	222.00	232.56	262.00
D. Average Capital Cost [(A + C)/2]	222.00	227.28	247.28
E. *Less:* Cost of Freehold Land	12.00	12.00	12.00
F. Average Capital Cost for Depreciation (D - E)	210.00	215.28	235.28
G. Depreciable value (90% of F)	189.00	193.75	211.75
H. Depreciation recovered upto prev. year *(48.6 + 5.4)	*54.00	60.75	67.75
I. Balance Depreciation to be recovered (G - H)	135.00	133.00	144
J. Balance useful life out of 35 years	20.00	19.00	18.00
K. Yearly depreciation from 2011-12 (I/J)	6.75	7.00	8.00
L. Depreciation recovered upto the year (H + K)	60.75	67.75	75.75

(c) (i) Calculate Rebate on Bills discounted as on 31 December,2013 from the following data and show journal entries:

	Date of Bill	**₹**	**Period**	**Rate of Discount**
(i)	**15.10.2011**	**50,000**	**5 months**	**8%**
(ii)	**10.11.2011**	**30,000**	**4 months**	**7%**
(iii)	**25.11.2011**	**40,000**	**4 months**	**7%**
(iv)	**20.12.2011**	**70,000**	**3 months**	**9%**

[6]

Answer:

Calculation of Rebate on Bills Discounted

₹	Due Date	Days after 31 December,2013	Discount Rate	₹
50,000	18/03/2012	31+29+18=78	8%	852.46
30,000	13/03/2012	31+29+13=73	7%	418.85
40,000	28/03/2012	31+29+28=88	7%	673.22
70,000	23/03/2012	31+29+23=83	9%	1,224.59
Total				3,169.12

Date	Particulars	Dr. ₹	Cr. ₹
Dec.31	Interest and Discount Account Dr. To, Rebate on Bills Discounted (Being the provision for unexpired discount required at the end of the year)	3,169.12	 3,169.12

(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.