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) Contingent Liability would appear
(a) On the liability side
(b) On the asset side
(c) **As a note in Balance Sheet**
(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) Ground Rent or Surface rent means
(a) Minimum Royalty payable
(b) Maximum Royalty payable
(c) **Fixed rent payable in addition to minimum rent**
(d) Rent recovered at the end of lease term

(iv) In the hire purchase system interest charged by vendor is calculated on the basis of
(a) **Outstanding cash Price**
(b) Hire purchase Price
(c) Installment amount
(d) None of the above

(v) Goods are transferred from Department A to Department B at a price so as to include a profit of 33.33% on cost. If the value of closing stock of Department Y is ₹36,000, 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

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

	Column 'A'		Column 'B'
1.	**Both a journal and a ledger**	**A**	**Valuation of Inventories**
2.	**Under Valuation of Assets**	**B**	**Cash Book**
3.	**AS-2**	**C**	**Secret Reserves**
4.	**Indemnity Period**	**D**	**Royalties**
5.	**Minimum Rent**	**E**	**Insurance Claim**

Answer:

	Column 'A'		Column 'B'
1.	Both a journal and a ledger		Cash Book
2.	Under Valuation of Assets		Secret Reserves

3.	AS-2		Valuation of Inventories
4.	Indemnity Period		Insurance Claim
5.	Minimum Rent		Royalties

(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 Revenue expenditure.
(iii) Excess of hire purchase price over cash price is known as Interest.
(iv) Bad debts are apportioned among departments in the proportion of sales of each department.
(v) Joint Venture is a Temporary form of business organization.

Answer:

(i) True;
(ii) True (assumed that the business is in continuation);
(iii) True;
(iv) True;
(v) True.

(d) Answer the following: [5x2=10]

(i) In preparing the Bank Reconciliation Statement for the month of June 2015, AB Company has the following data.
Balance as per bank statement ₹ 15,375.
Cheques issued but not presented ₹ 1,725
Bank service charges ₹ 100.
Compute the bank balance as per cash book.

Answer:

Particulars	Amount (₹)
Bank balance as per Pass Book	15,375
Add: Bank service changes	100
Less: Cheques issued but not presented	1,725
Balance as per Cash Book	13,750

(ii) Golden Ltd furnished the following particulars:
Debtors ledger include ₹ 7,500 due from Das & Co. whereas creditors ledger include ₹ 4,500 due to Das & Co. Show the journal entry.

Answer:

Journal of Golden Ltd.

Particulars	Debit (₹)	Credit (₹)
Creditors Ledger Adjustment A/c Dr. To Debtors Ledger Adjustment A/c (Being transfer entry to set-off balance)	4,500	 4,500

(iii) ₹ 30,000 is the annual installment to be paid for three years (given present value of an annuity of ₹ 1 p.a. @ 5% interest is 2.7232. Ascertain the cash price increase of hire purchase.

Answer:

Computation of cash price

Amount of Installment	Present Value
₹ 1	2.7232
₹ 30,000	$\frac{2.7232 \times 30,000}{1}$
Cash price is	₹ 81,696

(iv) An industry borrowed ₹ 40,00,000 for purchase of machinery on 1-6-2014. Interest on loan is 9% p.a. The machinery was put to use from 1-1-2015. What is the amount to be charged for the year ended 31-3-2015 to record the borrowing cost of loan as per AS – 16.

Answer:

Particulars	₹
(a) Interest up to 31-03-2015 (40,00,000 × 9% × $\frac{10}{12}$)	3,00,000
(b) Less: Interest relating to pre-operative period to be capitalized (3,00,000 × $\frac{7}{12}$)	2,10,000
Amount to be charged to P&L A/c (3,00,000 × $\frac{3}{10}$)	90,000

(vi) 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.

Answer:

	₹
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

Section - B

Answer any five from the following.
Each question carries 15 marks [5 × 15 = 75]

2. (a) The Bank statement of Mr. J. White dated 31.12.2013 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.

(ii) 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.

(iii) A cheque of ₹65 deposited into the Bank on 28.12.2013 was not cleared by the Bank till after 31.12.2013.

(iv) A cheque of ₹150 deposited into and cleared by the Bank before 31.12.2013 was not entered in the Cash Book, through an oversight.

(v) Cheques drawn by and posted to parties by Mr. White on 31.12.2013 for ₹73, ₹119 and ₹46 were presented for payment to the Bank only on 3.1.2014. [7]

Answer:

Bank Reconciliation Statement as on 31st December 2013

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

(b) Mr. B sold goods to Mr. K for ₹ 90,000 on 1st April, 2016 for which the later accepted three bills of ₹ 30,000 each due respectively in 1,2 and 3 months. The first bill is retained by Mr. B and is duly met. The second bill was discounted (discount being ₹ 600) and is met in due course. The third bill is also discounted (discount being ₹ 900) and is dishonoured, the Noting charges being ₹ 150.
New arrangements were duly made whereby Mr. K pays Cash ₹ 10,150 and accepted and new bill due in 2 months for the balance of the amount with interest at 15% p.a. The bill is retained, on due date the same is dishonoured, noting charges being ₹ 180. Mr. K declared insolvent on 15th Sept. 2014 and 35 paise in a rupee were received from his estate.
Required:
Pass Journal entries in the Books of Mr. B. [8]

Answer:

In the Book of Babai
Journals

Date	Particulars	LF	₹	₹
2014 April 1	Bills receivable A/c To Mr. K A/c (Acceptance received for 3 bills for ₹ 30,000 each payable at one, two and three months after date respectively)	Dr.	90,000	90,000
April 1	Bank A/c Discount A/c To Bills receivable A/c (Second bill discounted)	Dr. Dr.	29,400 600	30,000
April 1	Bank A/c Discount A/c To Bills receivable A/c (Third bill discounted)	Dr. Dr.	29,100 900	30,000
May 4	Cash A/c To Bills receivable A/c (Third bill discounted)	Dr.	30,000	30,000

July 4	Mr. K A/c To Bank A/C (Third bill dishonoured and noting charges paid by Bank)	Dr.	30,150	 30,150
July 4	Cash A/c To Mr. K A/C (Cash received from Mr. K under new arrangement)	Dr.	10,150	 10,150
July 4	Mr. KA/c To Interest A/C (Interest charged on renewal of bill)	Dr.	500	 500
July 4	Bills receivable A/c To Mr. K A/C (Acceptance received for new bill)	Dr.	20,500	 20,500
Sept.7	Mr. K A/c To Bills receivable A/c To Cash A/c (noting charges) (Bill dishonoured by Mr. K and noting charges paid)	Dr.	20,680	 20,500 180
Sept.15	Cash A/c Bad debts A/c To Mr. K A/C (35 paise in a rupee received on the insolvency of Mr. K)	Dr. Dr.	7,238 13,442	 20,680

3. (a) From the following Receipts and Payments of Nethajee Sports Club, prepare income and expenditure A/c for the year ended on 31-3-2016.

Receipts	**Amount (₹)**	**Payments**	**Amount (₹)**
To Balance b/d (01-04-2015)	**23,000**	**By Salaries**	**16,000**
To Subscriptions	**13,000**	**By Rent**	**3,000**
To Interest	**1,000**	**By Stationery**	**1,000**
To Sale of Old Furniture (Book Value ₹ 2,000)	**1,600**	**By Sports Material Purchased**	**12,000**
To Entrance Fees	**8,000**	**By Balance c/d (31-3-2016)**	**12,000**
	46,600		**46,600**

Additional Information:

(a) Subscriptions include ₹1,000 received for the last year.

(b) Rent includes ₹600 paid for the last year.

From the above particulars Prepare Income and Expenditure A/c for the year ending 31-3-2016. [7]

Answer:

Income & Expenditure Account of Nethajee Sports Club for the year ending 31-03-2016.

Dr. Cr.

Expenditure	Amount (₹)	Amount (₹)	Income	Amount (₹)	Amount (₹)
To Salaries		16,000	By Subscriptions	13,000	
To Rent	3,000		(-) Last year Outstanding	1,000	12,000
(-) Last year outstanding	600	2,400	By Interest		1,000
To Stationery		1,000	By Entrance fees		8,000
To loss on sale of old furniture (2,000 – 1,600)		400			
To Surplus (Excess of Income over Expenditure)		1,200			
		21,000			21,000

Note: Entrance fees has been treated as a revenue receipt.

3. (b) From the following information, calculate a consequential loss claim:

(i) Financial year ends on 31st March.
(ii) Fire occurs on December 1 following.
(iii) Period of disruption : December 1 to March 31.
(iv) Period of indemnity : 6 months.
(v) Net profit for previous financial year ₹ 15,00,000
(vi) Insured standing charges ₹ 25,00,000
(vii) Uninsured standing charges ₹ 4,00,000
(viii) Increase in the cost of working ₹ 3,20,000
(ix) Saving in insured standing charges ₹ 1,00,000
(x) Reduced turnover avoided through increased cost of workings : ₹ 8,00,000
(xi) 'Special circumstances clause' stipulated:
(a) Increase in turnover (standard and annual) : 20%
(b) Increase in rate of gross profit: 5%
(xii)

Turnover for the four months ending	31st July	30th Nov.	31st March
I Year (₹)	40,00,000	90,00,000	70,00,000
II Year (₹)	60,00,000	1,10,00,000	20,00,000

(xiii) Sum insured : ₹ 50,00,000. **[8]**

Answer:

Computation of Short Sales:

Particulars	₹
Sales during the same period in last year	70,00,000
Add: 20% increase stipulated	14,00,000
Adjusted Sales	84,00,000
Less: Actual sales during disruption period	20,00,000
Amount of Short Sale	64,00,000

Computation of G.P. (Agreed):

Rate of Gross Profit (G.P.) for preceding accounting year:

$$\frac{\text{Net Profit} + \text{Insured Standing Charges}}{\text{Sales for the preceding accounting year}} \times 100 = \frac{15,00,000 + 25,00,000}{40,00,000 + 90,00,000 + 70,00,000} \times 100$$

$$= \frac{40,00,000}{2,00,00,000} \times 100 = 20\%$$

$\therefore$ Agreed Rate of G.P = 20% + 5% = 25%.

Loss of profit on Short Sales = 25% of ₹64,00,000 i.e. ₹16,00,000.

Particulars	₹
Annual Turnover [12 months immediately preceding the date of fire]	2,40,00,000
Add: 20% Increase	48,00,000
Adjusted Annual Sales	2,88,00,000
G.P. on Adjusted Annual sales or Insurable Amount ₹2,88,00,000×25%	72,00,000

Computation of Additional Expenses to be considered:

Particulars	₹
(a) Actual expense incurred	3,20,000
(b) G.P on reduced turnover avoided ₹8,00,000×25% i.e. ₹2,00,000	2,00,000
(c)	

Increase in cost of working $\times \frac{\text{Net Profit} + \text{Insured Standing Charges}}{\text{Net Profit} + \text{All Standing Charges}}$ i.e. ₹3,20,000 $\times \frac{(15,00,000 + 25,00,000)}{(15,00,000 + 29,00,000)}$ i.e. ₹2,90,909.	2,90,909
Hence , least of (a), (b) and (c) i.e. ₹2,00,000 will be considered	

Computation of Claim:

Particulars	₹
Loss of profit on short sales	16,00,000
Add: Additional Expenses allowed	2,00,000
Less: Savings in insured standing charges	1,00,000
	17,00,000
Insurance Claim = $\frac{\text{Insured Amount}}{\text{Insurable Amount}} \times \text{Total consequential loss}$ i.e. $\frac{₹50,00,000}{₹72,00,000} \times ₹17,00,000$	11,80,556

4. A, B and C were equal partners in a firm. Their Balance Sheet as on 31st March, 2015 was as follows:

Liabilities	₹	Assets	₹
A's Capital	**1,60,000**	**Building**	**4,00,000**
C's Capital	**1,00,000**	**Machinery**	**4,00,000**
A's Loan	**2,00,000**	**Furniture and Fixtures**	**1,60,000**
Creditors	**10,00,000**	**Stock**	**1,60,000**
		Book Debts	**2,00,000**
		Cash at Bank	**10,000**
		B's Capital (Overdrawn)	**1,30,000**
			14,60,000

The firm was dissolved as all the partners were declared insolvent. The assets were realized as under:
Book debts : 45% less; Building : ₹ 1,60,000; Stock : ₹ 1,00,000; Machinery : ₹ 2,00,000; and Furniture and fixtures: ₹ 40,000. Realization expenses were ₹ 10,000.

The private assets and private liabilities of the partners were as follows:

Partner	Private Assets (₹)	Private Liabilities (₹)
A	**2,50,000**	**2,50,000**
B	**2,00,000**	**1,80,000**
C	**2,30,000**	**2,50,000**

You are required to prepare:
(i) Realisation Account,
(ii) Bank Account,
(iii) Creditors Account,
(iv) Partner's Capital Account, and
(v) Deficiency Account. **[15]**

Answer:

ABC Partnership Firm
(1) Realisation Account

Particulars	₹	Particulars	₹	₹
To Building A/c	4,00,000	By Bank A/c (Realisation of Assets):		
		Book Debts	1,10,000	

		Building	1,60,000	
		Stock	1,00,000	
		Machinery	2,00,000	
		Furniture	40,000	6,10,000
To Machinery A/c	4,00,000	By Loss transferred:		
		A Capital A/c	2,40,000	
		B Capital A/c	2,40,000	
		C Capital A/c	2,40,000	7,20,000
To Furniture & Fixtures A/c	1,60,000			
To Stock A/c	1,60,000			
To Book Debts A/c	2,00,000			
To Bank (Realisation Exp.)	10,000			
	13,30,000			13,30,000

(2) Bank Account

Particulars	₹	Particulars	₹
To Balance b/d	10,000	By Realisation A/c (Expenses)	10,000
To Realisation A/c (Assets Realised)	6,10,000	By Creditors (Available cash paid)	6,30,000
To B Capital A/c (2,00,000 – 1,80,000)	20,000		
	6,40,000		6,40,000

(3) Creditors Account

Particulars	₹	Particulars	₹
To Bank b/d	6,30,000	By Balance b/d	10,00,000
To Deficiency A/c	3,70,000		
	10,00,000		10,00,000

(4) Partners' Capital Account

Dr. Cr.

Particulars	A	B	C	Particulars	A	B	C
	(₹)	(₹)	(₹)		(₹)	(₹)	(₹)
To Balance b/d		1,30,000		By Balance b/d	1,60,000	--	1,00,000
To Realisation A/c (Loss)	2,40,000	2,40,000	2,40,000	By A/s Loan A/c	2,00,000		
To Deficiency A/c	1,20,000			By Bank		20,000	
				By Deficiency A/c		3,50,000	1,40,000
	3,60,000	3,70,000	2,40,000		3,60,000	3,70,000	2,40,000

(5) Creditors Account

Particulars	₹	Particulars	₹
To B's Capital A/c	3,50,000	By Creditors A/c	3,70,000
To C's Capital A/c	1,40,000	By A's Capital A/c	1,20,000
	4,90,000		4,90,000

5. **(a) Upen 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 manufacture	**₹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. [8]

Answer:

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

$a = ₹10{,}000 + \frac{1}{5} b$

$b = ₹5{,}000 + \frac{1}{4} a$

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

$= ₹10{,}000 + 1{,}000 + \frac{1}{20} a$

$= ₹11{,}000 + \frac{1}{20} a$

Or, 20 a = ₹2,20,000 + a

Or, 19a = ₹2,20,000

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

= ₹11,579

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

(b) The following details were extracted from the books of Mr. Vasudev for the period ended 31st Dec,2015. 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:

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) Revision in the salary, effective from 1.4.2014, would cost the company an additional liability of ₹3,00,000 p.a. What will be the treatment in the final statement of account for the year ended 31st March 2015 of a limited company? [5]

Answer:

As per AS 5 (Extraordinary Items), all items of incomes and expenses included in the determination of net profit or loss for the period arise in the course of the ordinary activities of the enterprise. Only on rare occasion does an event or transaction give rise to an extraordinary item. In the present case, increase in salary arises from ordinary course of the business although its revision of pay requires a lot of funds. Even then, it cannot be considered as extraordinary item as per AS 5. No separate disclosure is necessary for the purpose.

(b) 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 $\left[\frac{5}{105} \text{ x } 2,68,800\right]$	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
∴ 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

7. (a) Mitali 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)? [7]

Answer:

Estimated total contract cost	Cost till date + Further Cost = 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 recognized		₹10,00,000

The relevant disclosure under AS -7 is as follows —

Particulars	**₹ in Lakhs**
Contract Revenue	52,00,000
Expenses Charged	58,50,000
Provision for future losses to be charged	3,50,000

(b) Khush Raho Life Insurance Co. Ltd. provides you the following information:

Particulars	**Direct Business ₹**	**Re-Insurance ₹**
Commission Paid	**1,11,000**	**10,000**
Commission Payable on 1.4.2015	**2,000**	**1,000**
Commission Payable on 31.3.2016	**1,000**	**3,000**
Commission Received		**14,000**
Commission Receivable on 1.4.2015		**2,000**
Commission Receivable on 31.03.2015		**3,000**

How will you show the various figures in respect of Commission on Re-Insurance ceded in the Revenue Account for the year ended 31st March, 2016.

[8]

Answer:

Revenue Account for the year ended 31st March, 2015

Particulars	Schedule	Current Year (₹ '000)	Previous Year (₹ '000)
Commission	2	107	

Schedule-2 Commission Expenses

Particulars	Current Year (₹ 000)	Previous Year (₹ 000)
Commission paid		
Direct	110	
Add: Commission on Re-insurance accepted	12	
Less: Commission on Re-insurance Ceded	(15)	
Net Commission	107	

Notes: (i) Commission incurred on Insurance Accepted**.**

Particulars	Direct Business ₹	Re-Insurance ₹
A. Paid	111	10
B. Add: Payable at the end	1	3
C. Less: Payable in the beginning	(2)	(1)
	110	12

(ii) Commission earned on Insurance Ceded

Particulars	₹
A. Received during the year	14
B. Add: Receivable at the end	3
C. Less: Receivable in the beginning	(2)
D. Total (A + B - C)	15

8. (a) 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. Provision for

Prepare : Bad Debt A/c and Provision for bad debts A/c assuming that same percentage is maintained for Provision for bad debts. [6]

Answer:

Bad Debts Account

Dr. **Cr.**

Date	Particulars	Amount (₹)	Date	Particulars	Amount (₹)
31-12-16	To Sundry Debtors A/c	3,000	31-12-16	By Provision for Bad Debt	3,800
31-12-16	To Mr. X	800			
		3,800			3,800

Provision for Bad Debts Account

Dr. **Cr.**

Date	Particulars	Amount (₹)	Date	Particulars	Amount (₹)
31-12-16	To Bad Debts	3,800	1-1-16	By Balance b/d	5,000
31-12-16	To Balance c/d		31-12-16	By Profit & Loss A/c	2,720
	10% on 39,200	3,920		(Further provision required)	
	(40,000 – 800)				
		7,720			7,720

(b) From the following information calculate Return on Equity as per Regulation 21 of the Central Electricity Regulatory Commission (Terms and Conditions of Tariff) Regulations, 2014:

(i) Date of Commercial Operation of COD = 1st April 2010.

(ii) Approved Opening Capital Cost as on 1st April 2010 = ₹ 15,00,000.

(iii) 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)	**1,00,000**	**30,000**	**20,000**	**10,000**

[9]

Answer:

Computation of Return on Equity

	Particulars	1st Year	2nd Year	3rd Year	4th Year
A.	Opening Equity (30% on Opening Capital)	4,50,000	4,80,000	4,89,000	4,95,000
B	Additional Equity (30% on Additional capital expenditure)	30,000	9,000	6,000	3,000
C.	Closing Equity (A+B)	4,80,000	4,89,000	4,95,000	4,98,000
D.	Average Equity ($\frac{A+C}{2}$)	4,65,000	4,84,500	4,92,000	4,96,500
E.	Return on Equity (D × $\frac{14}{100}$)	65,100	67,830	68,880	69,510

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

(a) Write about cash basis and accrual basis of accounting;
(b) Bills of Exchange;
(c) Components of contract revenue as per AS – 7;
(d) Money Measurement Concept.

Answer:

(a) Cash basis and accrual basis of accounting:

Cash Basis of Accounting is a method of recording transactions by which revenues, costs, assets and liabilities are reflected in the accounts for the period in which actual receipts or actual payments are made. Under this, there is no prepaid / outstanding expenses or accrued/ unaccrued incomes. This basis is not recognized under the Companies Act, 2013.

Accrual Basis of Accounting is a method of recording transactions by which revenue, costs, assets and liabilities are reflected in the accounts for the period in which they accrue. This basis includes consideration relating to deferrals, allocations, depreciation and amortization. This basis is also referred to as mercantile basis of accounting. Under the Companies Act, 2013 all companies are required to maintain the books of accounts according to accrual basis of accounting.

(b) Definition of ills of Exchange and its features:

Bills of exchange is defined as " an instrument in writing containing an unconditional order signed by the maker, directing a certain person to pay a certain some of money only to the order of the certain person or to the bearer of the instrument".

Based on the above definition the following features of a bill of exchange are noticed:

(a) It's an instrument in writing.
(b) It contains an unconditional order.
(c) It's signed by the drawer.
(d) It's drawn on a specific person.
(e) There is an order to pay a specific sum of money.
(f) It must be dated.
(g) It specifies to whom the payment is to be made e.g. to the maker or to person mentioned by him or to the bearer.
(h) The amount of money to be paid must be certain.
(i) It must be properly stamped
(j) It may be made payable on demand, or after a definite period of time. Whereas, a bill of exchange is drawn by seller and accepted by buyer; a promissory note, on the other hand, is created by the buyer as an undertaking to pay to the seller.

(c) Components of contract revenue as per AS – 7:

As per AS – 7 (Construction Contract) Contract revenue consists of the following —

- Revenue/price agreed as per Contract.
- Revenue arising due to escalation clause.
- Claims - Claims is the amount that contractors seek to collect from the customer as reimbursement of cost not included in contract price.
- Increase in revenue due to increase in units of output.
- Increase or decrease in revenue due to change or variation in scope of work to be performed.
- Incentive payments to the contractors.
- Decrease in contract revenue due to penalties.

(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.