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) The cost of a Fixed Assets of a business has to be written off over its
(a) Natural Life
(b) Accounting Life
(c) Physical Life
(d) **Estimated Economic Life**

(ii) Receipts and Payments Account records
(a) Only revenue nature receipts
(b) Only capital nature receipts and payment
(c) Only revenue nature receipts and payments
(d) **Both the revenue and capital nature receipts and payments**

(iii) Excess of minimum rent over royalty is known as
(a) Maximum rent
(b) Excess workings
(c) **Short workings**
(d) Deficiency of actual royalty

(iv) The person in whose favour the bill is endorsed is known as __________.
(a) **Endorsee**
(b) Drawee
(c) Drawer
(d) None of the above

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

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

	Column 'A'		Column 'B'
1.	**AS 16**	**A**	**Revenue Recognition**
2.	**Remittance in transit**	**B**	**Receipts and Payments Account**
3.	**Entrance fee**	**C**	**Borrowing costs**
4.	**AS 9**	**D**	**Dissolution of Partnership Firm**
5.	**Garner V Murray Rule**	**E**	**Branch Adjustment**

Answer:

	Column 'A'		Column 'B'
1.	AS 16	C	Borrowing costs
2.	Remittance in transit	E	Branch Adjustment
3.	Entrance fee	B	Receipts and Payments Account
4.	AS 9	A	Revenue recognition
5.	Garner V Murray Rule	D	Dissolution of Partnership Firm

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

- **(i) As per concept of conservatism, the Accountant should provide for all possible losses but should not anticipate profit.**
- **(ii) Hybrid Basis of Accounting is the combination of both Cash as well as Accrual basis.**
- **(iii) Reserve for unexpired risk is applicable for Banking Companies.**
- **(iv) Realisation account is opened at the time of dissolution of the partnership firm.**
- **(v) Amount spent for white washing the factory building is treated as Revenue Expenditure.**

Answer:

- **(i)** — True;
- **(ii)** — True;
- **(iii)** — False;
- **(iv)** — True;
- **(v)** — True.

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

(i) A fire damaged in the premises of a trader resulting in loss of stock of ₹ 1,10,000. The goods salvaged from fire was ₹ 40,000. The policy was for ₹ 50,000 eligible for average clause. Decide the quantum of claim to be lodged with the insurance company.

Answer:

Total value of Stock before fire = 1,10,000 + 40,000 = 1,50,000

$$\text{Amount of Insurance claim} = \frac{\text{Stock destroyed by fire}}{\text{Total Stock before fire}} \times \text{Amount of Policy}$$

(or)

$$\Rightarrow \frac{\text{Policy Amount}}{\text{Value of Stock at the date of fire}} \times \text{Actual loss}$$

$$\Rightarrow \frac{1,10,000}{1,50,000} \times 50,000$$

⇨ ₹ 36337.

(ii) X, Y were in partnership sharing profits and losses in the ratio of 4 : 1. Z is admitted for 1/5th share in the future profits. Calculate new profit sharing ratio.

Answer:

Let us suppose Total firm share = 1

Share given to '2' – $\frac{1}{5}$th

Remaining Share = $1 - \frac{1}{5} = \frac{4}{5}$

X's New share = $\frac{4}{5} \times \frac{4}{5} = \frac{16}{25}$

Y's New share = $\frac{4}{5} \times \frac{1}{5} = \frac{4}{25}$

New Ratio of x, y & z is = $\frac{16}{25} : \frac{4}{25} : \frac{1}{5}$

= 16 : 4 : 5

(iii) On 1-1-2015 M/s. J and Co. Ltd purchased machinery for ₹1,00,000 subsequently ₹ 50,000 was paid for installation. Assuming that the rate of depreciation was 10% on Reducing Balance Method. Determine the closing book value of machine as at 31-12-2016.

Answer:

Particulars	₹
Machine purchased on 1-1-2015 for ₹	1,00,000
+ Installation charges	50,000
Total cost of Machinery	1,50,000
(-) Depreciation on 31-12-2015 (1,50,000 × $\frac{10}{100}$)	15,000
Written down value on 1-1-2016	1,35,000
(-) Depreciation on 31.12.2016 (1,35,000 × $\frac{10}{100}$)	13,500
Value of Machine on 31-12-2016	1,21,500

(iv) M/s Pipul purchased 10% Debentures in RR LTD for ₹ 5,20,000 on 1st July, 2015. The face value of these Debentures were ₹ 4,80,000. Interest on Debentures falls due on 30th September and 31st March. Compute the Cost of Acquisition of the Debentures.

Answer:

Particulars	₹
Cum-interest purchase price of debentures	5,20,000
Less: Interest from the last date of payment of interest to the date of purchase [₹ 4,80,000 × (3/12) × 0.10]	12,000
Cost of Debentures at the time of acquisition	5,08,000

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

Answer:

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

Section - B

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

2. (a) On 1st April, 2014, Om Ltd. purchased a machine for ₹66,000 and spent ₹5,000 on shipping and forwarding charges, ₹7,000 as import duty, ₹1,000 for carriage and installation, ₹500 as brokerage and ₹500 for an iron pad. It was estimated that the machine will have a scrap value of ₹ 5,000 at the end of its useful life which is 15 years.

On 1st January, 2015 repairs and renewals of ₹ 3,000 were carried out. On 1st October, 2016 this machine was sold for ₹ 50,000. Prepare Machinery Account for the 3 years. [7]

Answer:

Dr. Machinery Account Cr.

Date	Particulars	Amount ₹	Date	Particulars	Amount ₹
1.4.2014	To, Bank A/c To, Bank A/c	66,000 14,000	31.3.2015	By, Depreciation A/c By, Balance c/d	5,000 75,000
		80,000			80,000
1.4.2015	To, Balance b/d	75,000	31.3.2016	By, Depreciation A/c By, Balance b/c	5,000 70,000
		75,000			75,000
1.4.2016	To, Balance b/d	70,000	1.10.2016	By, Depreciation A/c By, Bank A/c (sale) By, Balance b/c	2,500 50,000 17,500
		70,000			70,000

Working Note : 1. Total Cost = ₹ 66,000 + ₹ 5,000 + ₹ 7,000 + ₹ 1,000 + ₹ 500 + ₹ 500 = ₹ 80,000
Depreciation= (Total Cost - Scrap Value)/Expected Life=₹(80,000 – 5,000)/15 =₹5,000

(b) Rewrite the following Trial Balance to correct the same.

Trial Balance as on 31st March, 2016

Debit Balances	**₹**	**Credit Balances**	**₹**
Wages	**2,680**	**Capital**	**10,000**
Purchases	**12,490**	**Sales**	**31,080**
Salaries	**520**	**Rent Paid**	**500**
Carriage	**50**	**Discount Received**	**120**
Building	**12,010**	**Lighting Charges**	**160**
Bank Overdraft	**470**	**Sundry Creditors**	**800**
Cash in hand	**60**	**Opening Stock**	**9,260**
Sundry Debtors	**1,490**	**Furniture**	**3,250**
	29,770		**55,770**

[8]

Answer:

Correct Trial Balance as on 31.03.2016

Debit Balances	**Amount**	**Credit Balances**	**Amount**
Wages	2,680	Bank Overdraft	470
Purchases	12,490	Capital	10,000
Salaries	520	Discount received	120
Carriage	50	Sundry creditors	800
Building	12,010	Sales	31,080
Cash in hand	60		
Sundry Debtors	1,490		
Rent paid	500		
Lighting charges	160		
Opening stock	9,260		
Furniture	3,250		

	42,470		42,470

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

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

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

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

Prepare Receipts & Payments Account for the year ended 31.12.2015 taking into account the following adjustments:

(i) Subscription received in advance ₹ 1,500
(ii) Salary due for ₹ 1,500 but not paid for the year
(iii) 60% of the admission fee to be capitalized
(iv) Subscription due for 2015 but not received ₹ 3,000. **[15]**

Answer:

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

Receipts	₹	Payments	₹
To Balance b/d	10,000	By Salary A/c (W/N – 2)	21,000
To Admission Fees ₹ 12,000 ÷ 40%	30,000	By General Expenses	22,000
To Sale of News Paper	2,500	By Audit Fees	2,500
To Donation	15,000	By Printing & Stationary	7,500

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

Balance Sheet of the Club as on 31.12.2014

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

Working Notes:

(1) Subscription received during the year

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

(2) Salary paid in 2015

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

4. Gupta and Maitra were partners in a firm sharing profits in the ratio of 3 : 1. They admitted Sen as a new partner for 3/8th share in the profits. The new profit-sharing ratio will be 3:2:3. Sen brought ₹2,00,000 for his capital and ₹50,000 for his share of premium for goodwill.

On 31st March, 2015, the date of Sen's admission, the Balance Sheet of Gupta and Maitra was:

Liabilities	₹	Assets	₹
Creditors	60,000	Cash	90,000
Bills Payable	20,000	Debtors	80,000
Capital A/cs:		Stock	1,50,000
Gupta	4,00,000	Furniture	50,000
Maitra	1,00,000	Machinery	2,10,000
	5,80,000		5,80,000

It was agreed that
(i) Stock to be valued at ₹2,00,000.
(ii) Machinery will be depreciated by 12% and Furniture by ₹2,000.
(iii) A Provision of 5% for Doubtful Debts will be made on Debtors.
(iv) The Capital Accounts of all the partners were adjusted in the new profit-sharing ratio after admission. For surplus or deficiency, the Current Accounts were to be opened.

Required: Prepare the Revaluation Account, Partners' Capital Accounts and the Balance Sheet of the new firm. [15]

Answer:

Dr. Revaluation Account Cr.

Particulars	₹	Particulars	₹
To Machinery A/c	25,200	By Stock A/c	50,000
To Furniture A/c	2,000		
To Provision for Doubtful Debts A/c	4,000		
To Profit on revaluation t/f to:			
Gupta's Capital A/c (3/4) 14,100			
Maitra's Capital A/c (1/4) 4,700	18,800		
	50,000		50,000

Dr. Partners' Capital Accounts Cr.

Particulars	Gupta (₹)	Maitra (₹)	Sen (₹)	Particulars	Gupta (₹)	Maitra (₹)	Sen (₹)
ToGupta's Current A/c (b.f.)	2,64,100	---	---	By Balance b/d	4,00,000	1,00,000	---
To Balance c/d	2,00,000	1,33,334	2,00,000	By Revaluation A/c	14,100	4,700	---
				By Bank A/c	---	---	2,00,000
				By Premium for Goodwill A/c	50,000	---	---
				By Maitra's Current A/c (b.f.)	---	28,634	---
	4,64,100	1,33,334	2,00,000		4,64,100	1,33,334	2,00,000

Balance Sheet of the new firm as at 1st April, 2012

Liabilities	₹	Assets	₹
Creditors	60,000	Cash (₹ 90,000 + ₹ 2,00,000 + ₹ 50,000)	3,40,000
Bills Payable	20,000	Debtors 80,000	
Gupta's Current A/c	2,64,100	Less: Provision 4,000	76,000
Capital A/cs:		Stock	2,00,000
Gupta	2,00,000	Furniture (₹ 50,000 - ₹ 2,000)	48,000
Maitra	1,33,334	Machinery (₹ 2,10,000 - ₹ 25,200)	1,84,800

Sen	2,00,000	Maitra's Current A/c	28,634
	8,77,434		8,77,434

Working Notes:

1. **Calculation of Sacrificing Ratio**

   Sacrifice = Old Share - New Share

   Gupta's sacrifice = $\frac{3}{4} - \frac{3}{8} = \frac{3}{8}$, Maitra's sacrifice = $\frac{1}{4} - \frac{2}{8}$ = Nil

   Only Gupta sacrifices his share of profit.

2. **Calculation of Partners' New Capitals**

   (a) Total Capital of the Firm $= \frac{\text{Capital of the New Partner (Sen)}}{\text{Share of Profit of Sen}}$

   = ₹ 2,00,000 × 8/3 = ₹ 16,00,000/3

   (b) New Capitals of Partners

   Gupta = $\frac{₹16,00,000}{3} \times \frac{3}{8}$ = ₹ 2,00,000

   Maitra = $\frac{₹16,00,000}{3} \times \frac{2}{8}$ = ₹ 1,33,334

5. (a) Show what journal entries would be passed by the Delhi Head Office to record the following transactions in their Books on 31st March, 2016, the closing date :

- **A remittance of ₹ 70,000 made by Noida Branch to Head Office on 29th March, 2016 and received by the Head Office on 5th April, 2016.**
- **Goods of ₹ 1,26,000 sent by the Head Office to the Ajmer Branch on 28th March, 2016 and received by the later on 4th April, 2016.**
- **Noida Branch paid ₹ 60,000 as salary to a visiting Head Office Official. [6]**

Answer:

Journal of H.O.

	Particulars	Dr. (₹)	Cr.(₹)
(i) 31.3.16	Cash in Transit A/c Dr. To Noida Branch A/c (Being cash remitted by Noida Branch but not received by HO as on date)	70,000	 70,000
(ii) 31.3.16	Goods in Transit A/c Dr. To Ajmer Branch A/c (Being goods sent to Bikaner Branch but yet to be received by Branch as on date)	1,26,000	 1,26,000
(iii) 31.3.16	Salaries A/c Dr. To Noida Branch A/c (H.O. official's salaries paid by Noida Branch)	60,000	 60,000

(b) The summarized analysis of the accounts of the outstanding debtors of GANAPATHI LTD. at the date of 13.03.2015 (Annual Closing) of amount as under:

Debtors	Goods Sold during the year (₹)	Goods returned during the year (₹)	Cash and Cheques received during the year (₹)	Discount allowed during the year (₹)	Bills Exchange received during the year (₹)
A	**6,000**	**---**	**4,000**	**1,000**	**---**
B	**4,000**	**1,000**	**2,000**	**---**	**---**

C	**10,000**	**---**	**6,000**	**---**	**---**
D	**20,000**	**2,000**	**12,000**	**1,000**	**2,000**
F	**24,000**	**3,000**	**16,000**	**2,000**	**2,000**

Debtors' balance at the beginning of the year was ₹ 9,000. Out the above receipts of a bill for ₹ 1,400 given by D was dishonoured, noting charges amounting to ₹ 40.

Required:
Prepare General Ledger Adjustment Account in Debtors Ledger. **[9]**

Answer:

(In Debtors Ledger)
General Ledger Adjustment Account

Dr. **Cr.**

Date	Particulars	₹	Date	Particulars	₹
	To Debtors Ledger Adj. A/c			By Balance b/d	9,000
	Cash & Cheque Rec.	40,000		Debtors' Ledger Adj. A/c	
	Return inwards	6,000		Sales	64,000
	Discount allowed	4,000		B/R Dishonour	1,400
	B/R	4,000		Noting charges	40
	To Balance c/d	20,440			
		74,440			74,440

Working:
Sales = ₹ 6,000 + ₹ 4,000 + ₹ 10,000 + ₹ 20,000 + ₹ 24,000 = ₹ 64,000
Return inward = ₹ 1,000 + ₹ 2,000 + ₹ 3,000 = ₹ 6,000
Discounted allowed = ₹ 1,000 + ₹ 1,000 + ₹ 2,000 = ₹ 4,000
B/R = ₹ 2,000 + ₹ 2,000 = ₹ 4,000.

6. (a) On 12th June, 2015, a fire occurred in the premises of Ramakrishna Rao, a paper merchant. Most of the stocks were destroyed, cost of stock salvaged being ₹ 22,400. In addition, some stock was salvaged in a damaged condition and its value in that condition was agreed at ₹20,800. From the books of account, the following particulars were available:

(i) His stock at the close of account on December 31, 2014 was valued at ₹ 1,67,000.
(ii) His purchases from 1.1.2015 to 12.6.2015 amounted to ₹ 2,24,000 and his sales during the period amounted to ₹ 3,08,000.

On the basis of his accounts for the past three years, it appears that he earns on an average a gross profit of 25% on sales. Mr. Rao has insured his stock for ₹ 1,20,000. Compute the amount of the claim. **[6]**

Answer:

Statement of Claim

Particulars	₹
A. Estimated Value of Stock as at date of fire	1,60,000
B. Value of Salvaged Stock & damaged Stock (₹ 22,400 + ₹ 20,800)	43,200
C. Estimated Value of Stock lost by fire (A - B)	1,16,800
D. Amount of claim by applying Average clause:	
Loss suffered × $\frac{\text{Sum Insured}}{\text{Actual Insurable Value}}$ = ₹1,16,800 × $\frac{₹1,20,000}{₹1,60,000}$	87,600

Working Note: Calculation of the value of Closing Stock as on the date of fire.

Memorandum Trading Account for the Period from.01.01.2015 to 12.06.2015

Particulars	₹	Particulars	₹
To Opening Stock	1,67,000	By Sales	3,08,000
To Purchases	2,24,000	By Closing Stock (Balancing figure)	1,60,000
To Gross Profit @ 25%	77,000		
	4,68,000		4,68,000

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

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

[9]

Answer:

Workings:

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

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

In the books of A. Ltd.
Memorandum Royalty Statement

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

Dr. **Short-Working Account** Cr.

Date	Particulars	Amount ₹	Date	Particulars	Amount ₹
2012	To P.P Ltd. A/c (Landlord)	40,500	2012	By Balance c/d	40,500
		40,500			40,500
2013	To Balance b/d " P.P Ltd. A/c (Landlord)	40,500 21,000	2013	By Balance c/d	61,500
		61,500			61,500
2014	To Balance b/d	61,500	2014	By Balance c/d	61,500
		61,500			61,500
2015	To Balance b/d	61,500	2015	By P.P Ltd. (Landlord) A/c " Profit and Loss A/c	7,500 54,000
		61,500			61,500

Dr. **Royalty Account** Cr.

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

7. (a) On 25th September, 2016, Manika Advertising Limited obtained advertisement rights to a Hockey Tournament to be held in Nov./Dec, 2016 for ₹ 520 lakhs.

They furnished the following information:

(i) The company obtained the advertisements for 70% of available time for ₹ 700 lakhs by 30th September, 2016.

(ii) For the balance time they got bookings in October, 2016 for ₹240 lakhs.

(iii) all the advertisers paid the full amount at the time of booking the advertisements.

(iv) 40% of the advertisements appeared before the public in Nov. 2016 and balance 60% appeared in the month of December, 2016.

Your are required to calculate the amount of profit/loss to be recognized for the month November and December, 2016 as per Accounting Standard-9. [7]

Answer:

As per AS 9 in a transaction involving the rendering of services, performance should be measured either under the completed service contract method or under the proportionate completion method, whichever relates the revenue to the work accomplished. AS 9 states that revenue from advertising should be recognized when the service is completed. The service as regards advertisement is deemed to be completed when the related advertisement appears before the public.

In the given problem, 40% of the advertisement appeared before the public in November, 2016 and balance 60% in December, 2016.

Calculation of Total Profit

₹ in lakhs

Advertisement for 70% of available time obtained by 30th September, 2016	700
Advertisement for 30% of available time obtained in by October, 2016	240
Total	940
Less: Cost of advertisement rights	(520)
Profit	420

The profit amounting ₹ 420 lakhs should be apportioned in the ratio of 40:60 for the months of November and December, 2016. Thus, the company should recognise ₹ 168 lakhs (i.e. ₹ 420 lakhs × 40%) in November, 2016 and rest ₹ 252 lakhs (i.e. ₹ 420 lakhs × 60%) in December, 2016.

(b) J of Jamsedpur consigned 50 tilling machines costing ₹4,000 each to V of Varanasi. J incurred the following expenses in dispatching the goods :

Carriage — ₹ 2,120; Insurance — ₹ 19,380; Freight — ₹ 3,500

2 machines were damaged in transit beyond repairs and 3 other machines were yet to be received by V. The latter sold 30 machines at a profit of ₹ 1,500 each and charged a commission of 5% on sales.

He paid the following expenses :
Unloading Charges — ₹ 3,000; Warehouse Rent — ₹ 4,000; Salesman's Salary, etc. — ₹ 5,000
Show the Consignment Account in the books of J. **[8]**

Answer:

In the books of J
Consignment to V of Varanasi Account

Dr. **Cr.**

Date	Particulars	Amount ₹	Date	Particulars	Amount ₹
	To Goods Sent on Consignment A/c [50 × ₹4,000]	2,00,000		By Loss in Transit A/c (P/L) [Note]	9,000
	To Bank A/c: Carriage Insurance Freight	 2,120 19,380 3,500		By Stock-in-Transit A/c [Note]	13,500
	To B's A/c: Unloading Charges Warehouse rent Salesman's Salary etc.	 3,000 4,000 5,000		By B's A/c [Sales = 30 × 5,500]	 1,65,000
	To B's A/c: Commission @ 5% of	8,250		By Stock on Consignment	68,500

	₹1,65,000			A/c [Note]	
	To Profit & Loss A/c	10,750			
		2,56,000			2,56,000

Working Notes:

Different Valuations

	No. of Machines	Amount (₹)
Goods Sent	50	2,00,000
Add: Consignor's Expenses	-	25,000
	50	2,25,000
Less: Loss in Transit	2	9,000 $\left[\frac{2}{50}\times 2,25,000\right]$
	48	2,16,000
Less: Stock in Transit	3	13,500 $\left[\frac{3}{50}\times 2,25,000\right]$
Received by Consignee	45	2,02,500
Add: Non- Recurring expenses paid by consignee (unloading charges)	-	3,000
	45	2,05,500
Stock on consignment	15	$\frac{15}{45}\times 2,05,500 =$ **₹68,500**

8. **From the following information relating to Global Finance Bank Ltd., prepare profit and loss account for the year ended 31-3-2015. Also show Schedule 13, 14, 15 & 16 as necessary.**

Information for the year ending 31-3-2015:

	₹ (in '000)
Interest/discount on advances/bills	**1,58,140**
Income on investments	**59,050**
Interest on balances with RBI	**21,215**
Commission, exchange & brokerage	**14,535**
Profit on sale of investments	**570**
Interest on deposits	**1,57,020**
Interest on RBI borrowings	**16,810**
Rent, taxes, lighting	**4,775**
Printing and Stationery	**1,065**
Advertisement and publicity	**435**
Depreciation on bank's property	**1,460**
Director's fees, allowances and expenses	**35**
Auditor's fees and expenses	**205**
Law charges	**110**
Postage, telephone etc.	**1,560**
Repairs and maintenance	**455**
Insurance	**4,575**
Other expenditure	**4,420**
Balance of Profit and Loss A/c b/f	**7,620**

The following adjustments are to be made:

1) **Provide for Income Tax (including surcharge) @ 51.75%.**

2) **Every year the bank transfers 25% of profit to statutory reserve and 5% of profit of revenue reserve.**

Dividend amounting to ₹10,00,000 for the year ended 31-3-2015 is proposed by the Board of Directors. [15]

Answer:

Form – B

Form of Profit and Loss Account for the year ended 31.03.2015.

Name of the Bank : Global Finance Bank Ltd.

Particulars	Schedule No.	('000) (CY)	('000) (PY)
I. Income			
Interest & Discount earned	13	2,38,405	
Other income	14	15,105	
Total		2,53,510	
II. Expenditure			
Interest expended	15	1,73,830	
Operating expenses	16	19,095	
Provisions & Contingencies	---	31,353	
Total		2,24,278	
III. Profit or Loss			
Current year profit (I – II)		29,232	
Last year profit		7,620	
Total		36,852	
IV. Appropriations			
(a) Transfer to Statutory reserve @ 25%		7308	
(b) Transfer to Revenue Reserve @ 5%		1402	
(c) Proposed dividend		1000	
(d) Balance to Balance Sheet (b/f)		27,142	
Total		36,852	

Working Note:

Particulars	Sch. No.	('000) (CY)	('000) (PY)
Interest & Discount earned (Sch. – 13)			
Interest & Discount on Bills		1,58,140	
Income from investments		59,050	
Interest on Balance with RBI		21,215	
Total		2,38,405	
Other Income (Schedule No. 14)			
Commission, Exchange, Brokerage		14,535	
Profit on sale of investments		570	
Total		15,105	
Interest expended (Schedule No. 15)			
Interest on Deposits		1,57,020	
Interest on Borrowings R.B.I.		16,810	
Total		1,73,830	
Operating Expenses (Schedule No. 16)			
Rent, Taxes & Lighting		4,775	
Printing & Stationery		1,065	
Advertisement & Publicity		435	
Depreciation on Bank property		1,460	
Directors fees		35	
Auditors fees		205	
Law charges		110	
Postage & Telephone		1560	
Repairs & Maintenance		455	

Insurance		4,575	
Other Expenditure		4,420	
Total		19,095	
Provisions & Contingencies			
(a) Provision for tax		31,353	
Total		31,353	

Calculation of Provision for Tax

	('000)
Income	
Schedule No. – 13	2,38,405
Schedule No. – 14	15,105
Total (A)	2,53,510
Expenditure	
Schedule No. – 15	1,73,830
Schedule No. – 16	19,095
Total (B)	1,92,925
Profit before Tax (A – B)	60,585

Provision for Tax @ 51.75% = 60,585 × 51.75 = ₹ 31,353.

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

(a) Accommodation Bills

Usually a bill of exchange is drawn to settle a trade debt owing to the drawer by the drawee because the last words in the body of a bill of exchange are "for value received". Such types of bills are known as trade bills. But sometimes a bill of exchange can be accepted without consideration just to oblige a friend who is temporarily in need of money. Such a bill is discounted at the bank and cash its utilized by the friend in need of money (i.e., drawer) for the period of the bill and he (i.e., drawer) will give the amount of the bill on the due date to the acceptor to enable him to meet the bill on the duel date. Such a bill is an accommodation bill because the object of this bill is to accommodation a certain person with financial assistance for the period of the bill. Thus an accommodation bill may be defined as, "a bill which is drawn, accepted or endorsed without consideration but simply to oblige a friend and help to raise money by discounting or negotiating it. Such bills are also known as "kite bills". The Drawer cannot file a suit against the drawee on dishonor of such bills. This is of three types.

(i) When it is drawn for the accommodation of drawer only.
(ii) When the bill is drawn for the accommodation of the drawer and the drawee.
(iii) When two persons draw on each other for equal amounts for their own accommodation.

(b) Differences between Receipts and Payments A/c and Income and Expenditure A/c

	Receipts & Payments A/c		**Income and Expenditure A/c**
(i)	There can be opening balance which represents cash in hand or at bank.	(i)	There is no opening balance
(ii)	All items whether of capital or revenue nature are shown in this account.	(ii)	Only revenue items are taken into consideration while preparing this account.
(iii)	All receipts and payments whether relating to the current period, succeeding or preceding periods are taken into	(iii)	Only current periods income and expenses are taken into consideration while preparing this account

	consideration.		
(iv)	It is prepared on cash basis of accountancy	(iv)	It is prepared on accrual basis of accountancy
(v)	It is prepared in non-profit organizations in lieu of cash book.	(v)	It is prepared in non-profit organization in lieu of profit and loss account.
(vi)	Receipts are shown on the debit side and payments on the Credit side	(vi)	Incomes are shown on the credit side and expenditure on the debit side
(vii)	It is a real account	(vii)	It is a nominal account

(c) Reserve for Unexpired Risks

General Insurance policies issued for a short period only and their duration is commonly restricted to one year. These policies are issued at different dates in the year with the result that, many of them remain unexpired at the close of the year. Since these policies have still to run for the same months in the next year, the whole of the premium received on them cannot be taken to have been earned during the accounting year. A reasonable proportion of such premium should be carried forward to the next year to cover the unexpired risks. The amount thus carried forward to the next year to meet the unexpired risks is known as "Reserve for unexpired risks".

The executive committee of the General insurance council has laid down that in that in case of marine Insurance the reserve against unexpired risk should be 100% of net premium and in case of other business the reserve should be 50% of net premium. Some insurance companies maintain reserves much above these levels, the excess being termed as Additional Reserve.

(d) Causes of Depreciation

1. Physical Wear and Tear: It is caused mainly from wear and tear when the asset is in use and from erosion, rust, rot and decay from being exposed to wind, rain, sun and other elements of nature.
2. Economic Factors: These may be said to be those that cause the asset to be put out of use even though it is in good physical condition. These arise due to obsolescence and inadequacy.
3. Time factors: There are certain assets with a fixed period of legal life such as lease, patents and copy rights. Provision for the consumption of these assets is called amortization rather than depreciation.
4. Depletion: Some assets are of a wasting character perhaps due to the extraction of raw materials from them. Natural resources such as mines, quarries and oil wells come under this heading.
5. Accident: An asset may reduce in value because of meeting of an accident.