Paper 5 - Financial Accounting

Time Allowed : 3 Hours **Full Marks : 100**

The figures in the margin on the right side indicate full marks.
Answer Question No. 1 which is compulsory and any five from the rest.

Working Notes should form part of the answer. Whenever necessary, suitable assumptions should be made and indicated in answer by the candidates.

1.

(a) Answer the following questions (give workings) **[2 x 5=10]**

(i) An industry borrowed ₹40,00,000 for purchase of machinery on 1.6.2013. Interest on loan is 9% per annum. The machinery was put to use from 01.01.2014. What is the amount to be charged as borrowing cost for the year ended 31.3.2014 as per AS 16.

Answer:

Particulars	₹
(a) Interest upto 31.3.2014 (40,00,000 x 9% x 10/12 months)	3,00,000
(b) Less: interest relating to pre-operative period to be capitalized [3,00,000 x 7/10]	2,10,000
Amount to be charged to P & L A/c [3,00,000 x 3/10]	90,000

(ii) During a year, Subscription received was ₹ 42,000. It includes ₹ 1,600 for last year and ₹ 600 for next year. Also ₹ 3,000 has still to be received for current year. What is the amount of Subscription to be credited to Income and Expenditure Account?

Answer:

Subscription Account

Dr. **Cr.**

Particulars	₹	Particulars	₹
To Balance b/d (Opg Bal of Subs. Rec'ble)	1,600	By Balance b/d (Opg Bal of Subs. Recd in Adv.)	Nil
To Income and Expenditure A/c – Subs. Income recognized during the year (balancing figure)	42,800	By Cash / Bank – Subs. Received during the year	42,000
To Balance c/d (Clg Bal of Subs. Recd in Adv.)	600	By Balance c/d (Clg Bal of Subs. Rec'ble)	3,000
Total	45,000	Total	45,000

(iii) A, B and C are Partners sharing Profits and Losses in the ratio 3:2:1. B retired from the Firm. Partners A and C decided to take his share in 3:1 ratio. What is the New Profit Sharing Ratio?

Answer:

Computation of New Profit (or Loss) Sharing Ratio (PSR) of partners A and C

Particulars	A	B	C	Ratio
1. Old Ratio	$\frac{3}{6}$	$\frac{2}{6}$	$\frac{1}{6}$	3:2:1
2. Share of B apportioned between A and C in 3:1 ratio	$\frac{1}{3} \times \frac{3}{4} = \frac{3}{12}$	$-\frac{2}{6}$	$\frac{1}{3} \times \frac{1}{4} = \frac{1}{12}$	3:1
3. New PSR after B's Retirement (1+2)	$\frac{3}{6} + \frac{3}{12} = \frac{9}{12}$		$\frac{1}{6} + \frac{1}{12} = \frac{3}{12}$	**3:1**

(iv) Goods are transferred from Department P to Department Q at a price so as to include a profit of 25% on cost. If the value of closing stock of Department Q is ₹ 20,000, then determine the amount of stock reserve on closing stock.

Answer:

Stock Reserve on Closing Stock = ₹20,000× $\frac{25\%}{125\%}$ =₹4,000.

(v) Accurate Insurance Company Ltd. received ₹ 2,36,000 as Premium on New Policies and ₹48,000 as Renewal Premium. The Company received ₹36,000 towards Re- insurance Accepted and paid ₹28,000 towards Re-Insurance Ceded. How much will be credited to Revenue Account towards Premium?

Answer:

Particulars	Amount (₹)
Premium on Direct Business (First Year Premium 2,36,000 + Renewal Premium 48,000)	2,84,000
Add: Premium on Re-Insurance Accepted	36,000
Less: Premium on Re-Insurance Ceded	(28,000)
Amount to be credited to Revenue A/c towards Premium	2,92,000

(b) Fill in the blanks in the following sentences by using the more appropriate word(s) from the alternatives shown in bracket: [1×5=5]

(i) When there is no agreement among the partners, the profit or loss of the firm will be shared in their ____________ (capital ratio/equally).

(ii) In Hire Purchase transaction the right to sell or transfer of the goods remains with _________ (Seller/ Hirer).

(iii) As per the going concern concept, the enterprise should continue to exis __________ (in the foreseeable future/for limited period of time).

(iv) Inauguration expenses on opening of a new Branch of an existing business will be ___________ (capital/revenue) expenditure.

(v) Trail balance would not disclose ____________ (error of omission/omission of posting).

Answer:

(i) Equally

(ii) Seller

(iii) in the foreseeable future

(iv) Capital

(v) Error of omission

(c) From the four alternative answers given against each of the following cases, indicate the correct answer: **[1×5=5]**

(i) Dual concept in accounting results in the following equation :

(A) Capital + Liability = Assets
(B) Revenue = Expenses
(C) Capital + Profit = Assets
(D) Total Assets = Total Liability

(ii) Under which of the following heads is claims against a Company not acknowledged as debts shown?

(A) Unsecured Loan
(B) Current Liability
(C) Current Assets
(D) Contingent Liability

(iii) Which of the following will be the highest amount?

(A) Paid-up Capital
(B) Authorised Capital
(C) Subscribed Capital
(D) Reserve Capital

(iv) Bank Reconciliation Statement is

(A) Ledger Account
(B) Part of Cash Book
(C) A separate statement
(D) A sub-division of Journal

(v) Which of the following items is shown in the Income and Expenditure Account?

(A) Only items of capital nature
(B) Only items of revenue nature which are received during the year

(C) Only items of revenue nature pertaining to the period of accounts
(D) Both the items of capital and revenue nature

Answer:

(i) : (A) — Capital + Liability = Asset
(ii) : (B) — Contingent Liability
(iii) : (B) — Authorised Capital
(iv) : (C) — A separate statement
(v) : (C) — Only items of revenue nature pertaining to the period of accounts.

(d) Classify the following expenditures into Capital Expenditure and Revenue Expenditure: **[1×5=5]**

(i) Expenses on a foreign tour to purchase a machinery
(ii) Annual maintenance fee of a machine
(iii) Compensation paid to workers under voluntary retirement scheme
(iv) Legal expenses to recover dues from customers
(v) Salaries paid to Engineering staff in erecting a machine

Answer:

(i) Capital Expenditure
(ii) Revenue Expenditure
(iii) Revenue Expenditure
(iv) Revenue Expenditure
(v) Capital Expenditure

2.

(a) There was a difference in Trial Balance of Mr. S Basu, a trader, on 31st December, 2013 and the difference in books was carried to a Suspense Account and the books were closed. Subsequently on going through the books, the following errors were located:

- **₹ 1,296 paid for Repairs to Motor Car was debited to Motor Car Account as ₹ 696.**
- **A sale of ₹ 1,400 to Utpal Das entered in the Sales Book as ₹ 2,120.**
- **A cash discount of ₹ 1,000 received was entered in the Cash Book but was not posted in the ledger.**
- **₹ 500 being Purchase Returns posted to the debit of Purchases Account.**
- **The Purchase of a machine on 1st April, 2013 for ₹ 23,000 was entered in the Purchases Book.**
- **While carrying forward total of one page in Vikram Garg's Account, the amount of ₹ 1,000 was written on the credit side instead of the debit side.**
- **A cheque of ₹ 6,192 received from Vivek Basu (after allowing her a discount of ₹ 92) was endorsed to Arnab Ghosh in full settlement of ₹ 7,000. The cheque was finally dishonoured but no entries were passed in the books.**

Give the Journal entries to rectify the above and prepare the Suspense Account. **[7+4=11]**

Answer:

Books of Mr. S Basu
Journal

Date	Particulars	L.F.	Dr. Amount (₹)	Cr. Amount (₹)
	(i) Profit & Loss Adjustment A/c (Repairs) Dr. To Motor Car A/c To Suspense A/c [Repairs to Motor Car ₹ 1,296 wrongly debited to Motor Car A/c as 696, now rectified]		1,296	 696 600
	(ii) Profit & Loss Adjustment A/c (Sales) Dr. To Suspense A/c [A Sale of ₹ 1,400 entered in the Sales Book as ₹ 2,120 now rectified]		720	 720
	(iii) Suspense A/c Dr. To Profit & Loss Adjustment A/c (Discount Received) [Cash discount received but not posted to the ledger, now rectified]		1,000	 1,000
	(iv) Suspense A/c Dr. To P&L A/c Adjustment A/c (Purchase ₹ 500 and Purchase Returns ₹ 500) [Purchase Returns posted to the debit of Purchase A/c, now rectified]		1,000	 1,000
	(v) Machinery A/c Dr. To Profit & Loss Adjustment A/c [Purchase of Machine debited to Purchase A/c, now rectified]		23,000	 23,000
	(vi) S. Debtors A/c Dr. To Suspense A/c [Page total of one Debtor A/c written on the side instead of in the debit side, now rectified]		2,000	 2,000
	(vii) Vivek Basu A/c Dr. *P/L Adjustment A/c (Disc. Recd. A/c Dr. To Arnab Ghosh A/c To P/L Adjustment A/c (Disc. Allowed) [Endorsed cheque dishonoured, now recorded]		6,284 808	 7,000 92

Notes:

* It is assumed that discount received at the time of endorsements are being disallowed/ cancelled.

** The entries have been made assuming that the Final Accounts have already been prepared.

Suspense Account

Dr. Cr.

Particulars	₹	Particulars	₹
To P/L Adjustment A/c (Disc. Recd.)	1,000	By P/L Adjustment A/c (Repairs)	600
To P/L Adjustment A/c (Purchase)	500	By P/L A/c (Sales)	720
To P/L Adjustment A/c (Purchase Return)	500	By Sundry Debtors A/c	2,000

To Difference in Books	1,320		
	3,320		3,320

(b) Calculate the invoice price of the Goods sent to branch and the profit included therein in each of the following alternative cases:
Case – 1 : Goods sent to branch (at cost) ₹ 1,20,000. Goods are invoiced to the Branch at cost plus 25%.
Case – 2 : Goods sent to Branch (at cost) ₹ 1,20,000. Goods are invoiced to the branch to give a gross margin of 20% on sale price.

[2+2=4]

Answer:

Case	**Invoice Price = Cost + Profit**	**Profit (loading) =** $\text{Total Invoice Price} \times \frac{\text{Profit}}{\text{Invoice Price}}$
1	₹ 1,20,000 + 25% of ₹ 1,20,000 = ₹ 1,50,000	₹ 1,50,000 x 25/125 = ₹ 30,000
2	If Sale Price = ₹ 100, Profit = ₹ 20 and Cost ₹ 80 Thus, ₹ 1,20,000 x 100/80 = ₹ 1,50,000	₹ 1,50,000 x 20/100 = ₹ 30,000

3.
(a) The following data has been abstracted from the annual accounts a Company-

Particulars	**₹ in lakhs**	**Particulars**	**₹ in lakhs**
Share Capital: 40,000 Equity Shares of ₹10 each	**400**	**Profit before Tax**	**280**
General Reserve	**300**	**Provision for Tax**	**168**
Investment Allowance Reserve	**100**	**Proposed Dividend**	**20**
15% Long term loan.	**600**		

Calculate the following ratios – Return on Capital Employed (ROCE). **[4]**

Answer :

Computation of ROCE

Particulars	**₹ in lakhs**
Profit Before Tax	280
Add : Interest on Long Term Loan at 15%	90
Profit Before Tax and Interest (PBIT)	370

Computation of Net Worth on Net Worth and Capital Employed **(Amount in ₹ lakhs)**

a. Net Worth = Share Cap. + Gen. Reserve +Invt. Allowance Reserve = 400+300+100	800
b. Capital Employed = Net Worth + Long term Borrowings = 800 + 600	1,400

Computation of Ratios

	Particulars		%
Return on Capital Employed	= (PBIT ÷ Capital Employed.)	= (370÷ 1,400) ÷ 100	26.43%

(b) From the following information of a club, prepare Income & Expenditure Account for the year ended 31st March, 2014 and a Balance Sheet as on that date:

Cash Book

Dr. **Cr.**

Receipts	₹	Payments	₹
To Member's Subscription	5,000	By Upkeep of Pavilion	2,000
To Member's Admission Fees	300	By Expenses regarding Tournaments	700
To Sale of Old Balls, Bats etc.	50	By Rates and Insurance	200
To Hire of Ground	300	By Telephones	50
To Subscription for Tournament	1,000	By Printing & Stationery	100
To Drawn from Bank	4,000	By General Charges	50
To Donations	10,000	By Secretary's Honorarium	170
		By Grass Seeds	20
		By Bats, Balls, etc.	710
		By Deposit in Bank	16,650
	20,650		20,650

Assets on 01.04.2013:	₹
Cash at bank	3,000
Stock of Balls and Bats, etc.,	1,500
Printing & Stationery (Stock)	200
Subscription due	500

Surplus on account of Tournament and Donations should be kept in reserve for a permanent pavilion. Subscriptions due on 31st March, 2014 ₹750. Write-off 50 per cent of Bats, Balls Account and 25 per cent of Printing & Stationery Account . Treat admission fees as of revenue nature.

[5+6=11]

Answer:

Income & Expenditure Account of the club
for the year ended 31st March, 2014

Dr. **Cr.**

Expenditure	₹	Income	₹

To Upkeep of Pavilion	2,000	By Subscription 5,000		
To Rates & Insurance	200	Less: for previous year 500		
To Telephones	50	4,500		
To General Charges	50	Add: Outstanding 750	5,250
To Secretary's Honorarium	170	By Admission Fees	300
To Grass Seeds	20	By Sale of old Balls, Bats, etc.,	50
To Bats, Balls, etc., 710		By Hire of Ground	300
Add: Opening Stock 1,500			
2,210			
Less: 50% Depreciation 1,105	1,105		
To Printing & Stationery (25% of 300)	75		
To Surplus	2,230		
	5,900		5,900

Balance Sheet as at 31.03.2014

Liabilities	₹	Assets	₹
Reserve of Permanent Pavilion	10,300	Cash at Bank	15,650
Capital Fund 5,200		Stock on Bats, Balls, etc.	1,105
Add: Surplus 2,230	7,430	Printing & Stationery	225
		Subscription due	750
	17,730		17,730

Working Notes:

A. Balance Sheet as at 01.04.2013

Liabilities	₹	Assets	₹
Capital Fund (Balancing Figure)	5,200	Cash at Bank	3,000
		Stock of Balls & Bats	1,500
		Printing & Stationery	200
		Subscription due	500
	5,200		5,200

B. Calculation of Closing Balance of Reserve for Permanent Pavilion

		₹
A	Donations	10,000
B	Add: Subscription for Tournament	1,000
C	Less: Expenditure regarding Tournament	700
D	Closing Balance of Reservation for Permanent Pavilion [A+B-C]	10,300

C. Calculation of Closing Balance of Cash at Bank

		₹
A	Opening Balance	3,000
B	Add: Cash deposited	16,650
C	Less: Cash withdrawn	4,000
D	Closing Bank Balance [A+B-C]	15,650

4.

(a) A and B were carrying on the business as equal partners. It was agreed that A should retire from the firm on 31st March, 2013 and that his son H should join B from 1st April 2013 and should be entitled to one-third of the profits of the partnership.

The balances in the firm's books on 31st March, 2013 were as follows:

Liabilities	₹	Assets	₹
A's Capital Account	34,000	Cash at Bank	11,000
B's Capital Account	28,200	Sundry Debtors	14,100
Sundry Liabilities	7,800	Furniture	14,200
		Building	20,700
		Goodwill	10,000
	70,000		70,000

On 31st March, 2013, Goodwill was valued at ₹ 22,000 and Building at ₹ 24,000. It was also agreed that enough money should be introduced to enable A to be paid out and leave ₹10,000 cash by way of working capital. B and H were to provide such sum as would make their capitals proportion to their shares of profits. A agreed to make a friendly personal loan to H by transfer from his Capital Account of half the amount which H had to provide.
B and H paid in the cash due from them on 7.4.2013 and the amount due to A was paid out on the same day.
Set out Journal Entries with full narration to record the above transactions in the books of the partnership. [10]

Answer:

In the books of firm
Journal Entries

Date	Particulars		L.F.	Dr. (₹)	Cr.(₹)
31.1.2013	Goodwill A/c	Dr.		12,000	
	Building A/c	Dr.		3,300	
	To A's Capital A/c				7,650
	To B's Capital A/c				7,650
	[Profit on Revaluation distributed between existing partners as 1 : 1]				
	A's Capital A/c	Dr.		12,750	
	To H's Capital A/c				12,750
	[Transfer of half of H's Capital Contribution from A's Capital]				
7.4.2013	Bank A/c	Dr.		27,900	
	To B's Capital A/c				15,150
	To H's Capital A/c				12,750
	[Sufficient Cash introduced as Capitals]				
	A's Capital A/c	Dr.		28,900	
	To Bank A/c				28,900

	[The dues to the retiring partner paid off]			

Working Notes:

A. Estimated financial position on 7.4.2013 (after the transactions are over)

Particulars	₹	₹
Total Assets:		
Cash at Bank	10,000	
Sundry Debtors	14,100	
Furniture	14,200	
Buildings	24,000	
Goodwill	22,000	84,300
Less: External Liabilities : Sundry Creditors		7,800
Capitals of B & H		76,500

$\therefore$ B's Capital would be $\frac{2}{3}$ of 76,500 = ₹ 51,000 and H's Capital would be $\frac{1}{3}$ of ₹ 76,500
= ₹ 25,500

B. Adjustment related to Capital Accounts

Particulars	A ₹	B ₹	H ₹
(a) Existing Capitals Balances as per last Balance Sheet	34,000	28,200	---
Profit on revaluation [24,000 – 20,700]+[22,000 – 10,000] as 1 : 1	7,650	7,650	
Transfer between A and H [$\frac{1}{2}$ of 25,500]	-12750		+12,750
	28,900	35,850	12,750
(b) Maintainable Capital	Nil	51,000	25,500
Amount Paid off or brought in	28,900 (paid)	15,150 (brought in)	12,750 (brought in)

(b) Book value of old assets exchanged ₹16,000
Additional cash given for exchange of asset ₹10,000
Determine the cost of new asset acquired and show the accounting treatment in this regard in the following cases:

- **If no other information is given**
- **Fair market value of old asset exchanged is ₹36,000**
- **Fair market value of new asset acquired in exchange of old asset is ₹50,000.**

[1+2+2=5]

Answer:

When the market value of asset given up/ acquired is not clearly evident:

Journal

Particulars	Dr. (₹)	Cr.(₹)
New Asset A/c Dr. To, Bank A/c To, Old Asset A/c (Being the cost of asset acquired is recorded at the book value of asset given up and adjusted for payment.)	26,000	 10,000 16,000

When the market value of the asset given up is more clearly evident:

Journal

Particulars	Dr. (₹)	Cr.(₹)
New Asset A/c Dr. To, Bank A/c To, Old Asset A/c (Being the cost of asset acquired is recorded at the fair market value of the asset given up and adjusted for payment.)	46,000	 10,000 36,000
Old Asset A/c Dr. To, Profit and Loss A/c (Being the excess of fair market value over book value is transferred to P&L A/c.)	20,000	 20,000

When the market value of the asset acquired is more clearly evident:

Journal

Particulars	Dr. (₹)	Cr.(₹)
New Asset A/c Dr. To, Bank A/c To, Old Asset A/c (Being the cost of asset acquired is recorded at the fair market value)	50,000	 10,000 40,000
Old Asset A/c Dr. To, Profit & Loss A/c (Being credit balance in Old Asset A/c transferred to P&L A/c)	24,000	 24,000

5.

(a) Tulip Traders sells Goods on hire purchase basis at cost plus 50%. The following information is provided for the year:

Particulars	Opening (₹)	Closing (₹)
Stock out with Hire Purchase Customers	9,000	?
Stock at shop	18,000	20,000
Installment Due (Customers still Paying)	5,000	9,000

Cash received from hire purchasers amounted to ₹ 60,000, Goods purchased during the year amounted to ₹ 60,000. Goods repossessed (installments unpaid ₹ 2,000 of which ₹ 1,200 were overdue) valued at 25% of Total Unpaid Installments. The vendor spent ₹100 on goods repossessed and then sold for ₹ 800. Prepare Hire Purchase Trading Account. [12]

Answer:

Hire purchase trading account

Dr. **Cr.**

Particulars	₹	Particulars	₹
To Opening Balances:		By Hire Purchase Stock Reserve	3,000
Hire Purchase Stock	9,000	[₹ 9,000 x 50/150]	
Hire Purchase Debtors	5,000	By Bank A/c	60,000
To Goods Sold on Hire purchase	87,000	By Bank A/c	800
To Bank A/c	100	[Sale of Repossessed Goods]	
(Exp. On Repossessed Goods)		By Goods Sold on Hire Purchase A/c	29,000
To Hire Purchase Stock Reserve A/c	10,000	[₹ 87,000 x 50/150]	
[₹ 30,000 x 50/150]		By Closing Balances:	
To Profit t/f to General P&L A/c	20,700	Hire Purchase Stock	30,000
		Hire Purchase Debtors	9,000
	1,31,800		1,31,800

Working Notes:

A. Shop Stock Account

Dr. **Cr.**

Particulars	₹	Particulars	₹
To Balance b/d	18,000	By Goods Sold on Hire Purchase A/c	58,000
To Purchases	60,000	By Balance C/d	20,000
	78,000		78,000

B. Goods sold on hire purchase Account

Dr. **Cr.**

Particulars	₹	Particulars	₹
To Shop Stock A/c	58,000	By Hire Purchase Trading A/c	87,000
To Hire Purchase Trading A/c	29,000		
	87,000		87,000

C. Memorandum Hire purchase stock Account

Dr. **Cr.**

Particulars	₹	Particulars	₹

To Balance b/d To Goods Sold on Hire Purchase	9,000 87,000	By Hire Purchase Debtors A/c By Goods Repossessed A/c By Balance C/d (b.f.)	65,400 6,000 30,000
	96,000		96,000

D. Memorandum Hire purchase debtors Account

Dr. **Cr.**

Particulars	₹	Particulars	₹
To Balance b/d To Hire Purchase Stock A/c (b.f.)	5,000 65,400	By Bank A/c By Goods Repossessed A/c By Balance C/d	60,000 1,400 9,000
	70,400		70,400

(b) VK Ltd. sold goods worth ₹50,000 to YK Ltd. YK Ltd. asked for discount of ₹8,000 which was agreed by VK Ltd. The sale was effected and goods were dispatched. After receiving, goods worth ₹ 7,000 was found defected, which they returned immediately. They made the payment of ₹ 35,000 to VK Ltd. Accountant booked the sales for ₹ 35,000. Please discuss. [3]

Answer:

As per AS 9, revenue is the gross inflow of cash, receivable or other consideration arising in the course of the ordinary activities of an enterprise from the sale of goods, from the rendering of services, and from the use by others of enterprise resources yielding interest, royalties and dividends.

VK Ltd. should record the sales at gross value of ₹ 50,000. Discount of ₹ 8,000 in price and goods returned worth ₹ 7,000 are to be adjusted by suitable provisions. VK Ltd. might have sent the credit note of ₹ 15,000 to YK Ltd. to account for these adjustments. The contention of the accountant to book the sales for ₹ 35,000 is not correct.

6. (a) Uday Ltd. issued 8% Debentures of ₹3,00,000 in earlier year, on which interest is payable half yearly on 31st March and 30th September. The company has power to purchase its Own Debenture in the Open Market for cancellation thereof. The following purchases were made during the Financial Year 2013-2014 and cancellation made on 31st March 2014 —

- **On 1st April, ₹50,000 Nominal Value purchased for ₹49,450 ex-interest.**
- **On 1st September, ₹30,000 Nominal Value purchased for ₹30,250 cum-interest.**

Show the Journal Entries for the transactions held in year 2013-14. [10]

Answer:

Journal Entries

Date	Particulars		Dr. (₹)	Cr.(₹)
01.04.2013	Investment in Own Debenture A/c To, Bank A/c (Being Purchase of ₹1,00,000 Nominal Value Own Debentures at ₹98,900 ex-interest)	Dr.	98,900	 98,900
01.09.2013	Investment in Own Debentures A/c **(balance figure)** Interest on Own Debentures A/c (₹60,000×8%×5/12) To, Bank A/c (Given)	Dr. Dr.	58,500 2,000	 60,500

	(Being Purchase of ₹60,000 Nominal Value Own Debentures at ₹60,500 cum-interest)		
30.09.2013	Interest on Debentures A/c (₹6,00,000×8%×6/12) Dr. To, Interest on Own Debentures (Income) A/c (₹1,60,000×8%×6/12) To, Bank A/c (Being Interest due on 60,000 Debentures for 6 months, Interest on Own Debentures recognised and balance paid to outsiders)	24,000	 6,400 17,600
31.03.2014	Interest on debentures A/c (₹6,00,000×8%×6/12) Dr. To, Interest on Own Debentures (Income) A/c (₹80,000×8%×6/12) To, Bank A/c (Being Interest due on 60,000 Debentures for 6 months, Interest on Own Debentures recognised and balance paid to outsiders)	24,000	 6,400 17,600
31.03.2014	8% Debentures A/c (1,00,000+60,000) Dr. To, Investment in Own Debentures A/c (98,900+58,500) To, P&L A/c (Profit on Cancellation) **(balancing figure)** (Being cancellation of Own Debentures against Debenture Liability)	1,60,000	 1,57,400 2,600

(b) Following information relates to Utkal Ltd. State under which heads these items will appear in the Balance Sheet as per Revised Schedule VI ?

(i) 2,00,000 8% Preference Share of ₹100 each.
(ii) Investment of ₹45,00,000 in 40,000 12% Debenture of ₹100 each of Amrit Ltd.
(iii) License of ₹18,00,000 for Mining Right.
(iv) Loan repayable on demand of ₹20,00,000 from X Bank.
(v) Provision for taxation of ₹88,000. **[5]**

Answer:

As per Revised Schedule VI —

(i) 2,00,000 8% Prefence Shares of ₹100 each will come under : Equity and Liabilities – Shareholders' funds - Share Capital.
(ii) Investment of ₹45,00,000 in 40,000 12% Debenture of ₹100 each of Amrit Ltd. will come under: Assets - Non-current Assets – Non-current Investments.
(iii) License of ₹18,00,000 for Mining Right : Assets - Non-current Assets – Intangible assets.
(iv) Loan repayable on demand of ₹20,00,000 from X Bank : Equity and Liabilities – Current Liabilities – Short - term Borrowings.
(v) Provision for taxation of ₹88,000 will come under: Equity and Liabilities – Current Liabilities – Short-term Provision.

7.
(a) Calculate the Contract Revenue from the following details:

(₹ In Crores)

Particulars	**Years I**	**II**	**III**
Initial contract revenue	**3000**	**3000**	**3000**
Revenue increase due to escalation in IInd year	**---**	**600**	**---**

Claim			**300**
Incentive Payment			**450**
Penalties		**150**	

[5]

Answer:

Calculation of Contract Revenue

(₹ In Crores)

Particulars	Years I	II	III
Initial contract value	3000	3000	3000
Increase in revenue due to escalation	---	600	600
Claims	---	---	300
Incentive	---	---	450
Penalties	---	(150)	(150)
Contract revenue	3000	3450	4200

(b) When closing the books of a bank on 31.12.2012 you find in the loan ledger an unsecured balance of ₹2,00,000 in the account of a merchant whose financial condition is reported to you as bad and doubtful. Interest on the same account amounted to ₹ 20,000 during the year. How would you deal with this item of interest in 2012 account?

During the year 2013, the bank accepts 75 paise in the rupee on account of the total debt due up to 31.12.2012.

Show the entries and the necessary accounts showing the ultimate effect of the transactions in 2013 books of account under Interest Suspense Method. [4+3+3=10]

Answer:

When preparing the 2012 accounts the sum of ₹20,000 due from the merchant on account of interest should not be carried to Profit and Loss Account, because its recovery was doubtful. It should, therefore, be transferred to an Interest Suspense Account which would appear as a liability in Balance Sheet on 31.12.2012.

In the Books of Bank Journal

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
2012 Dec. 31	Merchant A/c Dr. To Interest Suspense A/c (Interest due transferred to Interest Suspense A/c)		20,000	 20,000
	Interest Suspense A/c Dr. Bad Debts A/c Dr. To Merchant A/c (Interest not received and balances transferred to Bad Debts A/c)		5,000 50,000	 55,000

	Cash A/c Dr. To Merchant A/c (Amount received @ 0.75 p in the rupee from the merchant)		1,65,000	1,65,000
	Interest Suspense A/c Dr. To Profit and Loss A/c (Interest received out of Interest Suspense transferred)		15,000	15,000

In the Books of the Bank

Dr. **Merchant's Account** **Cr.**

Date	Particulars	₹	Date	Particulars	₹
2012 Dec. 31	To Balance b/d To Int. Suspense A/c	2,00,000 20,000	2012 Dec. 31	By Balance c/d	2,20,000
		2,20,000			2,20,000
2013 Jan. 1	To Balance b/d	2,20,000	2013 Dec. 31	By Cash (@ 75p in the rupee)	1,65,000
				By Int. Suspense A/c (amount of Int. not covered)	5,000
				By Bad Debts	50,000
		2,20,000			2,20,000

Interest Suspense Account

Dr. **Cr.**

Date	Particulars	₹	Date	Particulars	₹
2012 Dec. 31	To Balance c/d	20,000	2012 Dec. 31	By Merchant's A/c	20,000
		20,000			20,000

2013 Dec. 31	To Merchant's A/c	5,000	2013 Jan. 1	By Balance b/d	20,000
	To Profit & Loss A/c	15,000			
		20,000			20,000

Notes:

A. Interest amounting to ₹20,000 due from customer has been debited to him by crediting Interest Suspense Account (and not to Interest A/c as its recovery is doubtful) and Interest Suspense A/c will appear in the liability side of the Balance Sheet.

B. Actual amount of interest which has been received in cash, i.e. ₹15,000, is transferred to P&L A/c.

8. Write a note on any three of the following: **[3×5=15]**

(a) Errors which are not disclosed by a Trial Balance
(b) Money Measurement Concept
(c) Recoupment of short workings
(d) Double Column method of recording transactions in relation to Dependent Branch
(e) The conditions to be satisfied to classify an asset as Current asset

Answer:

(a) Errors which are not disclosed by a Trial Balance:

The following errors cannot be detected by a Trial Balance :

(i) **Errors of Omission :** When the transaction is not at all recorded in the books of accounts, i.e. neither in the debit side nor in the credit side of the account – trial balance will agree.

(ii) **Errors of Commission :** Where there is any variation in figure/amount, e.g. instead of ₹ 600 either ₹ 60 or ₹ 6,000 is recorded, in both sides of ledger accounts – trial balance will agree.

(iii) **Errors of Principal :** When accounts are prepared not according to double entry principle e.g. Purchase of a Plant wrongly debited to Purchase Account – Trial balance will agree.

(iv) **Errors of Misposting :** When wrong posting is made to a wrong account instead of a correct one although amount is correctly recorded, e.g., sold goods to A but wrongly debited to C's Account – trial balance will agree.

(v) **Compensating Errors :** When one error is compensated by another error e.g. Discount Allowed ₹200 not debited to Discount Allowed Account, whereas interest received ₹200, but not credit to Interest Account – trial balance will agree.

(b) 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.

(c) Recoupment of short workings:

Generally the royalty agreement contains a provision for carrying of short workings with a view to adjust it in future. In the subsequent years, such short workings are adjusted against the surplus royalty. This process of adjustment is called recoupment of short workings. The right of recoupment of short workings enables the lessee to recover the excess payment, made in the earlier years to meet the condition of payment of minimum rent. A time is usually agreed upon the number of years for which such short workings can be recouped. This time limit for recoupment of short workings may be fixed or fluctuating. If the short working cannot be recouped within the specified time, they lapse and are charged to profit and loss account in the year when that specified time limit for recoupment ends.

(d) Double Column method of recording transactions in relation to Dependent Branch:

The Branch Account under this method will contain two columns to record the transactions Which are- (i) Cost Column and
(ii) Invoice Price Column

(i) Cost Column – Entries recorded hereunder will part of Double Entry System and show the value of goods sent out to Branh at Cost.

(ii) Invoice Price Column – This column will contain entries recorded at selling price. They do not form part of the entity's double entry system and do not disclose the Profit/Loss of the Branch. They would balance by including the value of closing stock provided there has been no physical loss of stock.

Branch Account

Dr. **Cr.**

Particulars	Invoice Price	Cost	Particulars	Invoice Price	Cost
To, Balance b/d			By, Cash Sales	×××	×××
- Opening Stock	×××	×××	By, Credit Sales	×××	×××
To, Goods Sent to Branch	×××	×××	By, Balance c/d		
To, Stock Adjustment A/c	×××	×××	- Closing Stock	×××	×××
To, Gross Profit					
-Transferred to P & L A/c	×××	×××			
Total	×××	×××	**Total**	×××	×××

(e) The conditions to be satisfied to classify an asset as Current asset:

An asset shall be classified as current when it satisfies any of the following criteria:

(i) It is expected to be realized in, or is intended for sale or consumption in the company's normal operating cycle;

(ii) It is held primarily for the purpose of being traded;
(iii) It is expected to be realized within twelve months after the reporting date; or
(iv) It is Cash or cash equivalent unless it is restricted from being exchanged or used to settle a liability for at least twelve months after the reporting date.

All other assets shall be classified as non- current.