

Paper-5: FINANCIAL ACCOUNTING

Time Allowed : 3 Hours

Full Marks : 100

Whenever necessary, suitable assumptions should be made and indicate in answer by the candidates.

Working Notes should be form part of your answer

Section A is compulsory and answer any 5 questions from Section B

Section A

1 (A) Answer the following questions (give workings):

Choose the right answer of the following alternatives:

[10 x 1]

- (a) The solvent partners must share the deficiency of an insolvent partner:
 - (i) In the profit sharing ratio
 - (ii) In the capital ratio
 - (iii) In the gaining ratio
 - (iv) None of the above

- (b) If the unrecorded liabilities are taken over by the new firm, it is transferred to :
 - (i) Realization accounts.
 - (ii) Partners' capital accounts.
 - (iii) Partners' drawings accounts.
 - (iv) None of the above.

- (c) For Buy back of shares, a company has to open
 - (i) A separate bank account
 - (ii) An escrow account
 - (iii) A share capital account
 - (iv) None of the above

- (d) Convertible debentures can be
 - (i) Partly convertible only
 - (ii) Fully convertible only
 - (iii) Partly or fully convertible
 - (iv) None of the above

- (e) Under "Double Account System" profit is disclosed in the
 - (i) Revenue Account
 - (ii) Net Revenue Account
 - (iii) Capital Account (Receipts and Expenditure on Capital Account)
 - (iv) None of the above.

- (f) Basic earnings per share amounts uses the net profit attributable to
 - (i) both equity and preference shareholders
 - (ii) Equity shareholders only
 - (iii) Preference shareholders only
 - (iv) All the above.

- (g) When Sales = ₹ 1,80,000, Purchase = ₹ 1,60,000, Opening Stock = ₹ 34,000 and rate of the Gross Profit is 20% on cost, the Closing Stock would be
 - (i) ₹ 50,000
 - (ii) ₹ 44,000
 - (iii) ₹ 46,000
 - (iv) None of the above

Answer to PTP_Intermediate_Syllabus 2008_Jun2015_Set 1

- (h) Goods are transferred from Department X to Department Y at a price so as to include a profit of 33.33% on cost. If the value of closing stock of Department Y is ₹ 18,000, then the amount

of stock reserve on closing stock will be

- (i) ₹ 6,000
 - (ii) ₹ 4,500
 - (iii) ₹ 9,000
 - (iv) None of the above
- (i) Profit earned before incorporation is a /an
- (i) Revenue profit
 - (ii) Extra ordinary profit
 - (iii) Capital Profit
 - (iv) None of the above
- (j) A profit on the sale of furniture of a club will be taken to:
- (i) Cash account
 - (ii) Receipts and payments account
 - (iii) Income and expenditure account
 - (iv) None of the above

(B) Fill up the Blanks:

[5 x 1]

- (i) As per AS – 6 when there is a change in the method of providing depreciation, the differential account of depreciation would have _____ effect.
- (ii) A company cannot redeem preference shares unless they are _____ paid up.
- (iii) Profit on revaluation of assets on the admission of a new partner is to be credited to the old partners in their _____ profit sharing ratio.
- (iv) Amalgamation Adjustments Account is opened in the books of the transferee company to incorporate _____.
- (v) When a new partner enters in the partnership firm and the partners decide to maintain the General Reserve in the books of the firm at its original value, the amount of general reserve is Credited to the old partners and _____ to all partners

(C) Match the following:

[5 x 1]

(i) AS 20	(A) Construction Contract
(ii) AS 13	(B) Net Profit or Loss for the period, prior period items & change in accounting policies.
(iii) AS 7	(C) Earnings Per Share (EPS)
(iv) AS 5	(D) Accounting for Intangible Assets
(v) AS 26	(E) Accounting for Investment

(D) State with reasons whether the following propositions are True or False:

[5 x 1]

- (i) Short workings arise when minimum rent is less than actual royalty.
- (ii) Revenue recognition of Royalties receivable from foreign countries is made on receipt basis.
- (iii) The accounting principle is general rule followed in preparation of financial Statement
- (iv) The inventory under AS – 2 is valued on the basis of cost price or current replacement cost whichever is lower.
- (v) In admission of a partner new partner's capital amount is shared by old partner in gaining ratio.

Answer to PTP_Intermediate_Syllabus 2008_Jun2015_Set 1

Solution:

(A) (a) – (ii) ; (b) – (i) ; (c) – (ii) ;(d) – (iii) ; (e) (i) ; (f) – (ii) [1,80,000 – (34,000 + 1,60,000 + 1,80,000 x 20/120)] ; (g) – (ii) [33.33% on cost = 25% on sales (18,000 x 25% = ₹4,500)]; (i) – (iii) ; (j)- (iii)

(B) (i) Retrospective; (ii) Fully Paid up ; (iii) Old ; (iv) Statutory Reserve Account ; (v) Debited

(C)

(i) AS 20	(c) Earnings per Share
(ii) AS 13	(E) Accounting for Investment
(iii) AS 7	(A) Construction Contract
(iv) AS 5	(B) Net Profit or Loss for the period, prior period items & change in accounting policies.
(v) AS 26	(D) Accounting for Intangible Assets

(D) (i) False : Minimum rent is dead rent payable , even if there is no production or sales giving rise to payment of Royalty. Hence, when Royalty is lower than minimum rent, shortworkings arise, but not the other way about.

(ii) False: Revenue from foreign countries such as Royalties etc. arise on the basis of agreement and are recognized once they become receivable ; only when there are uncertainties of realization due to exchange control etc. such revenues are recognized on receipt basis.

(iii) True: Accounting principle indicates those rules of action which are generally adopted by an accountant while recording accounting Transaction.

(iv) False: As per AS – 2 inventory is valued at the lower of historical cost and net realizable value.

(v) False: New partner's capital amount shared by the old partner in sacrificing ratio.

Section - B

2. (a) From the following information, make out a statement of Proprietors' Fund with as many details as possible:

(i) Current Ratio	2.5
(ii) Liquid Ratio	1.5
(iii) Proprietary Ratio (Fixed Assets: Proprietors' Fund)	0.75 or $\frac{3}{4}$
(iv) Working Capital	₹ 6,000
(v) Reserves & Surplus	₹ 4,000
(vi) Bank Overdraft.	₹ 1,000

There are no long-term loans nor any investments in fictitious assets.

(b) Two partnership firms, carrying on business under the name of B&Co and W&Co respectively, decided to amalgamate into G & Co. with effect from 1st January 2015. The respective Balance Sheets are:

Balance Sheet of B & Co. as on 31st December, 2014

Liabilities	₹	Assets	₹
Mr. B's Capital Accounts	38,000	Plant and Machinery	20,000
Sundry Creditors	20,000	Stock-in-trade	40,000
Bank Overdraft	30,000	Sundry Debtors	20,000
		Mr. A's Capital Account	8,000
	88,000		88,000

Answer to PTP_Intermediate_Syllabus 2008_Jun2015_Set 1

A and B share profits and losses in the proportion of 1: 2.

Balance Sheet of W & Co. as on 31st December, 2014

Liabilities	₹	Assets	₹
Mr. X's Capital Account	20,000	Investment	10,000
Mr. Y's Capital Account	4,000	Stock-in-trade	10,000
Sundry Creditors	19,000	Sundry Debtors	20,000
		Cash in hand	3,000
	43,000		43,000

X and Y share profit and losses equally. The following further information is given:

- (i) All fixed assets are to be devalued by 20%.
- (ii) All stock in trade is to be appreciated by 50%.
- (iii) B & Co. owes ₹ 10,000 to W & Co. as on 31st December 2014. This debit is settled at ₹ 4,000
- (iv) Investment is to be ignored for the purpose of amalgamation, being valueless.
- (v) The fixed capital accounts in the new firm are to be : Mr. A ₹ 4,000; Mr. B ₹ 6,000 Mr. X ₹ 2,000 Mr. Y ₹ 8,000
- (vi) Mr. B takes over bank overdraft of B & Co. and gifts to Mr. A the amount of money to be brought in by Mr. A to make up his capital contribution.
- (vii) Mr. X is paid off in cash from W & Co. and Mr. Y brings in sufficient cash to make up his required capital contribution.

Pass necessary Journal Entries to close the books of both the firms as on 31st December 2014. [5+10]

Solution:

(a)

Workings:

(i) **Current Assets and Current Liabilities:**

Current Ratio = 2.5

or, Current Assets/ Current Liabilities = 2.5

or, Current Assets = 2.5 x Current liabilities

Now,

Working Capital = Current Assets – Current Liabilities

₹ 6,000 = 2.5 Current Liabilities – Current Liabilities

∴ ₹ 6,000 = 1.5 Current Liabilities

∴ Current Liabilities = $\frac{6,000}{1.5} = ₹ 4,000$

∴ Current Liabilities = ₹ 4,000

and Current Assets : Working Capital + Current Liabilities

= ₹ 6,000 + ₹ 4,000

= ₹ 10,000

Creditors = Current Liabilities – Bank Overdraft

= 4,000 – 1,000

= 3,000

(ii) **Stock:**

Liquid Ratio: $\frac{\text{Liquid Assets}}{\text{Liquid Liabilities}}$

Liquid Ratio = $\frac{\text{Liquid Assets}}{\text{Current Liabilities - Bank overdraft}}$

Answer to PTP_Intermediate_Syllabus 2008_Jun2015_Set 1

$$\text{or, } 1.5 = \frac{\text{Liquid Assets}}{3,000(4,000-1,000)}$$

$$\begin{aligned} \text{or, Liquid Assets} &= ₹ 3,000 \times 1.5 = ₹ 4,500. \\ \text{Stock} &= \text{Current Assets} - \text{Liquid Assets} \\ &= ₹ 10,000 - ₹ 4,500 \\ &= ₹ 5,500. \end{aligned}$$

(iii) Proprietors' Fund:

Proprietary Ratio i.e., Fixed Assets to Proprietors' Fund is 0.75 : 1.

So, if Proprietors' Fund is 1. Fixed Assets are 0.75.

Again, Proprietors' Fund – Fixed Assets = Current Assets - Current Liabilities

$$\text{or, } 1 - \frac{3}{4} = ₹ 10,000 - ₹ 4,000$$

$$\text{or, } \frac{1}{4} = ₹ 6,000.$$

$$\therefore = ₹ 6,000 \times \frac{4}{1} = ₹ 24,000.$$

Therefore, Proprietors' Fund = ₹ 24,000.

Here, Proprietor's Fund = Share Capital and Reserves & Surplus

$$\begin{aligned} \therefore \text{Share Capital} &= \text{Proprietors' Fund} - \text{Reserves \& Surplus} \\ &= ₹ 24,000 - ₹ 4,000 \\ &= ₹ 20,000. \end{aligned}$$

(iv) Fixed Assets:

Fixed Assets 0.75 of Proprietors' Fund i.e., ₹ 18,000 (₹ 24,000 x 0.75)

Statement of Proprietor's Fund

Proprietors' Fund	₹	Investment in	₹	₹	₹
Equity Share Capital	20,000	Fixed Assets			18,000
Reserve and Surplus	4,000	Working Capital			
		Current Assets:			
		Stock	5,500		
		Liquid Assets	4,500		
				10,000	
		Less: Current Liabilities:			
		Bank Overdraft	1,000		
		Creditors	3,000		
				4,000	6,000
	24,000				24,000

(b)

In the books of B & Co Journal

Date	Particulars	Dr. ₹	Cr. ₹
2014 Dec. 31	Realization A/c Dr. To Plant and Machinery A/c To Stock-in-trade A/c To Sundry Debtors A/c (Being the different assets transferred to Realization Account)	80,000	20,000 40,000 20,000

Answer to PTP_Intermediate_Syllabus 2008_Jun2015_Set 1

Sundry Creditors A/c To Realization A/c (Being sundry creditors transferred to Realization Account)	Dr.	20,000	20,000
Bank Overdraft A/c To B Capital A/c (Being overdraft taken over by B)	Dr.	30,000	30,000
G & Co. A/c (Note I) To Realization A/c (Being purchase consideration due from G & Co.)	Dr.	82,000	82,000
Realization A/c (Note II) To A Capital A/c To B Capital A/c (Being profit on realization transferred to partners capital in the ratio of 1 : 2)	Dr.	22,000	7,334 14,666
B Capital A/c (Note V) To A Capital A/c (Being deficit in A's capital made good by B)	Dr.	4,666	4,666
A Capital A/c B Capital A/c (See Tutorial Note) To G & Co. A/c (Being the capital accounts of the partners closed by transfer to G & Co.)	Dr. Dr.	4,000 78,000	82,000

Note: It should be noted that the credit balance in B's capital account is ₹ 82,000. His agreed capital in G & Co is ₹ 6,000 only. Since there is no liquid assets in B & Co. from which B can be repaid, the excess amount of ₹ 72,000 should be taken over by G & Co. as loan from B.

In the books of W & Co Journal

Date	Particulars	Dr. ₹	Cr. ₹
2014 Dec. 31	Realization A/c To Investment A/c To Stock-in-trade A/c To Sundry Debtors A/c (Being the different assets transferred to Realization Account)	40,000	10,000 10,000 20,000
	Sundry Creditors A/c To Realization A/c (Being sundry creditors transferred to Realization Account)	19,000	19,000
	G & Co. A/c (Note I) To Realization A/c (Being purchase consideration due from G & Co.)	10,000	10,000
	X Capital A/c Y Capital A/c To Realization A/c (Note II) (Being loss on realization transferred to Partners' Capital Accounts equally)	5,500 5,500	11,000
	Cash A/c To Y Capital A/c (Being the necessary amount brought in by Y to make up his required capital contribution)	9,500	9,500
	X Capital A/c To Cash A/c (Being the excess capital paid by cash)	12,500	12,500

Answer to PTP_Intermediate_Syllabus 2008_Jun2015_Set 1

X Capital A/c Y Capital A/c To G & Co. A/c (Being the capital accounts of the partners closed by transfer to G & Co.)	Dr. Dr.	2,000 8,000	10,000
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Working Notes:

(i) Calculations of Purchase Consideration

Assets taken over:	B & Co.	W & Co.
Plant & Machinery	16,000	15,000
Stock-in-trade	60,000	*14,000
Sundry Debtors [*After adjustment of ₹ 6,000 (₹10,000-₹4,000)]	20,000	
(A)	96,000	29,000
Liability taken over:		
Sundry Creditors : *₹ (10,000-3,000)	(B) * 14,000	19,000
Purchase Consideration (A-B)	82,000	10,000

(ii) Realization Account

Dr.				Cr.			
Date	Particulars	B & Co.	W & Co.	Date	Particulars	B & Co.	W & Co.
2014	To Investment A/c	---	10,000	2014	By Sundry Creditors	20,000	19,000
Dec.	To Plant & Machinery	20,000	10,000	Dec.	A/c	82,000	10,000
31	A/c	40,000	20,000	31	By Grey & Co. A/c	---	5,500
	To Stock-in-trade A/c	20,000	---		By X Capital A/c (loss)	---	5,500
	To Sundry Debtors A/c	7,334	---		By Y Capital A/c (loss)		
	To A Capital A/c (profit)	14,666	---				
	To B Capital A/c (profit)						
		1,02,000	40,000			1,02,000	40,000

(iii) Partners' Capital Accounts

Dr.				Cr.			
Date	Particulars	A	B	Date	Particulars	A	B
2014	To Balance b/d	8,000	---	2014	By Balance b/d	---	38,000
Dec.	To A Capital A/c	---	4,666	Dec.	By Realization A/c (profit)	7,334	14,666
31	To G & Co. A/c	4,000	78,000	31	By B Capital A/c	4,666	---
					By Bank Overdraft A/c	---	30,000
		12,000	82,666			12,000	82,666

(iv) Partners' Capital Accounts

Dr.				Cr.			
Date	Particulars	X	Y	Date	Particulars	X	Y
2014	To Realization A/c	5,500	5,500	2014	By Balance b/d	20,000	4,000
Dec.	To G & Co. A/c	2,000	8,000	Dec.	By Cash A/c	---	9,500
31	To Cash A/c	12,500	---	31			
		20,000	13,500			20,000	13,500

(v) In the new firm, A's capital should be ₹ 4,000 but his Capital Account is showing a debit balance of ₹ 666. Therefore, to make good the deficit, B will gift ₹ 4,666 to A.

Answer to PTP_Intermediate_Syllabus 2008_Jun2015_Set 1

- 3.(a) Ram, Laxman and Bharat were partners sharing Profits and Losses in the ratio of 5:3:2 respectively. On 31st March, 2014, Balance Sheet of the firm stood as follows:

Liabilities	Amount (₹)	Assets	Amount (₹)
Capital A/c's		Buildings	1,37,500
Ram	1,25,000	Furniture	62,500
Laxman	1,00,000	Stock	1,05,000
Bharat	70,000	Debtors	50,000
Creditors	83,750	Cash at Bank	28,000
Outstanding Expenses	4,250		
	3,83,000		3,83,000

On 31st March, 2013 Ram decided to retire and Laxman and Bharat decided to continue as equal partners. Other terms of retirement were as follows:

- (i) Building be appreciated by 20%
- (ii) Furniture be depreciated by 10%
- (iii) A provision of 5% be created for bad debts on debtors.
- (iv) Goodwill be valued at two years purchase of profit for the latest accounting year. The firm's profit for the year ended 31st March 2014 was ₹ 62,500. No goodwill account is to be raised in the books of accounts.
- (v) Fresh capital be introduced by Laxman and Bharat to the extent of ₹ 25,000 ₹ 87,500 respectively
- (vi) Out of sum payable to retiring partner Ram, a sum of ₹ 1,12,500 be paid immediately and the balance be transferred to his loan account bearing interest @ 12% p.a. The loan is to be paid off by 31st March 2016.

One month after Ram's retirement Laxman and Bharat agreed to admit Ram's son Lav as a partner with 1/4th share in profit / losses. Ram agreed that the balance in his loan account be converted into Lav's capital. Ram also agreed to forgo one month's interest on his loan.

It was also agreed that Lav will bring in, his share of goodwill through book adjustment, valued at the price on the date of Ram's retirement. No goodwill account is to be raised in the books.

You are required to pass necessary Journal Entries to give effect to the above transactions and prepare Partner's Capital.

- (b) The financial year of Mr. C ends on 31st March, 2014 but the stock in hand was physically verified only on 8th April, 2014. You are required to determine the value of Closing Stock (at cost) as at 31st March, 2014 from the following information.
- (i) The stock (valued at cost) as verified on 8th April, 2014 was ₹ 37,500.
 - (ii) Sales have been entered in the Sales Day Book only after the despatch of goods and sales returns only on receipt of goods.
 - (iii) Purchases have been entered in the Purchase Day Book on receipt of the purchase invoice irrespective of the date of receipt of the goods.
 - (iv) Sales as per the sales day book for the period 1st April, 2014 to 8th April, 2014 (before the actual verification) amounted to ₹ 15,000 of which goods of a sale value of ₹ 2,500 had not been delivered at the time of verification.
 - (v) Purchases as per the purchase day book for the period 1st April, 2014 to 8th April, 2014 (before the actual verification) amounted to ₹ 15,000 of which goods for purchases of ₹ 3,750 had not been received at the date of verification and goods for purchases of ₹ 5,000 had been received prior to 31st March, 2014.
 - (vi) In respect of goods costing ₹ 12,500 received prior to 31st March, 2014, invoices had not been received up to the date of verification of stocks.

Answer to PTP_Intermediate_Syllabus 2008_Jun2015_Set 1

(vii) The gross profit is 20% on sales.

(c) Amit Industries Ltd. is in the business of manufacturing and export. In 2012, the Government put a restriction on export of goods exported by Amit Industries Ltd leading to impairment of its assets. Amit Industries acquired at the end of 2008, identifiable assets worth ₹800 Lakhs for ₹1,200 lakhs, the balance being treated as Goodwill. The useful life of the identifiable assets is 15 years and depreciated on straight – line basis. When Government put the restriction at the end of 2012, the Company recognized the impairment loss by determining the recoverable amount of assets at ₹544 Lakhs. In 2014, the “restriction” was withdrawn by the Government and due to this favourable change, Amit Industries Ltd estimates its recoverable amount at ₹684 Lakhs.

(i) Calculate and allocate Impairment Loss in 2012.

(ii) Compute reversal of Impairment Loss and its allocation in 2014.

[8+3+4]

Solution:

(a)

Journal

Date	Particulars	Dr. (₹)	Cr. (₹)
1.	Building A/c To Revaluation A/c (Being building appreciated)	Dr. 27,500	27,500
2.	Revaluation A/c To Furniture A/c To Provision for Doubtful Debts A/c (Being furniture depreciated by 10% and Provision for doubtful debts created @ 5% on Debtors)	Dr. 8,750	6,250 2,500
3.	Revaluation A/c To Ram's Capital A/c To Laxman's Capital A/c To Bharat's Capital A/c (Being profit on revaluation transferred to capital accounts of partners)	Dr. 18,750	9,375 5,625 3,750
4.	Laxman's Capital A/c Bharat's Capital A/c To Ram's Capital A/c (Being adjustment for Ram's share of goodwill)	Dr. 25,000 Dr. 37,500	62,500
5.	Bank A/c To Laxman's Capital A/c To Bharat's Capital A/c (Being fresh capital introduced by Laxman and Bharat)	Dr. 1,12,500	25,000 87,500
6.	Ram's Capital A/c To Bank A/c To Ram's Loan A/c (Being settlement of Ram's capital on his retirement)	Dr. 1,96,875	1,12,500 84,375
7.	Ram's Loan A/c To Lav's Capital A/c (Transfer of Ram's Loan Account to Lav's Capital Account)	Dr. 84,375	84,375
8.	Lav's Capital A/c To Laxman's Capital A/c To Bharat's Capital A/c (Being adjustment entry passed for Lav's share of goodwill)	Dr. 31,250	15,625 15,625

Answer to PTP_Intermediate_Syllabus 2008_Jun2015_Set 1

Partner's Capital Accounts

Dr.					Cr.				
Particulars	Ram ₹	Laxman ₹	Bharat ₹	Lav ₹	Particulars	Ram ₹	Laxman ₹	Bharat ₹	Lav ₹
To Ram (Goodwill)	---	25,000	37,500	---	By Balan b/d	1,25,000	1,00,000	70,000	---
To Bank	1,12,500	---	---	---	„ Rev A/c	9,375	5,625	3,750	---
To Ram's Loan A/c (b.f)	84,375	---	---	---	„ Laxman (Goodwill)	25,000	---	---	---
To Balan c/d	---	1,05,625	1,23,750	---	„ Bharat (Goodwill)	37,500	---	---	---
					„ Bank (fresh capital)	---	25,000	87,500	---
	1,96,875	1,30,625	1,61,250	---		1,96,875	1,30,625	1,61,250	---
To Laxman (Goodwill)	---	---	---	15,625	By Balan b/d	---	1,05,625	1,23,750	---
To Bharat (Goodwill)	---	---	---	15,625	By Ram's Loan A/c	---	---	---	84,375
To Balan c/d	---	48,500	55,750	21,250	By Lav (goodwill)	---	15,625	15,625	---
	---	1,21,250	1,39,375	84,375		---	1,21,250	1,39,375	84,375

Working Notes:

(i) Calculation of Gaining Ratio

Partners	New ratio	Old ratio	Gain	Sacrifice
Ram		5 / 10		5/10
Laxman	1/2	3 / 10	$1/2 - 3 / 10 = 2/10$	
Bharat	1/2	2/10	$1/2 - 2 / 10 = 3/10$	

Hence, ratio of gain between Laxman and Bharat = 2:3

(ii) Value of Total Goodwill of the firm = ₹ 62,500 x 2 = ₹ 1,25,000

Ram's Share = ₹ 1,25,000 x 5/10 = ₹ 62,500

Laxman will bear = ₹ 62,500 x 2/5 = ₹ 25,000

Bharat will bear = ₹ 62,500 x 3/5 = ₹ 37,500

(iii) Lav's share of goodwill = ₹ 1,25,000 x 1/4 = ₹ 31,250

Laxman and Bharat share equal profits. Therefore, their sacrificing ratio will also be equal.

Hence, each of them will be credited with ₹ 15,625.

Answer to PTP_Intermediate_Syllabus 2008_Jun2015_Set 1

(b)

Mr. C

Statement showing Value of Stock on 31.3.2014

	Particulars	Amount (₹)	Amount (₹)
	Stock as on 8.4.14		37,500
Add:	Cost of Goods Sold and sent Out between 1.4.14 and 8.4.14		
(a)	Sales in this period	15,000	
	Less: Goods sold but not delivered (at Selling Price)	2,500	
		12,500	
	Less : Gross Profit included [20% of 12,500]	2,500	
			10,000
			47,500
Less:	Goods purchased and received between 1.4.14 and 8.4.14		
(a)	Purchases in this period	15,000	
	Less : Goods not received till 8.4.14	3,750	
			11,250
(b)	Goods received before 31.3.14 for which the invoice is yet to be received		12,500
	Stock on 31.3.2014		23,750

(c) (i) Computation and allocation of Impairment Loss for the year ended 31.03.2012 (₹ Lakhs)

End of 2012	Goodwill	Identifiable Assets	Total
(a) Historical cost	400	800	1,200
(b) Accumulated/Amortization for the period 01.04.2008 to 31.03.2012	(320) (400 x 4/5)	(214) (800 x 4/15)	(534)
(c) Carrying Amount (a) – (b)	80	586	666
(d) Recoverable Amount as on 31.03.2014			544
(e) Impairment Loss			122
(f) Impairment Loss allocated first to Goodwill and balance to other assets	(80)	(42)	(122)
(g) Carrying Amount after Impairment Loss (c) – (f)	Nil	544	544

(ii) Reversal of Impairment of Loss as on 31.03.2014 (₹ Lakhs)

Particulars	Goodwill	Identifiable Assets	Total
1. Carrying Amount at the end of 2012 after recognition of Impairment Loss (as above)	Nil	544	544
2. Less: Depreciation/ Amortization for 2 years	NIL	(98) (544 x 2/11)	(98)
3. Carrying Amount at the end of 2014 (1) – (2)	NIL	446	446
4. Carrying Amount at the end of 2014 had there been no impairment (Cost – Accumulated Depreciation)	NIL	480	480
5. Recoverable Amount at the end of 2014 (Given)			684
6. Total Impairment Loss to be reversed (5) – (3)			238
7. Impairment Loss That can be reversed (4) – (3) or (6) whichever is lower			34
8. Revised Carrying Amount at the end of 2014 (3) + (7) [This amount should not exceed (4)]			480

Answer to PTP_Intermediate_Syllabus 2008_Jun2015_Set 1

4. (a) On 1st January, 2014, Shivaji acquired furniture on the hire-purchase system from Barcelona Aids, agreeing to pay four semi-annual installments of ₹ 800 each, commencing on 30th June, 2014. The Cash price of the furniture was ₹ 3,010 and interest of 5% per annum at half yearly rest was chargeable. On 30th September, 2014, Shivaji expresses his inability to continue and Barcelona Aids seized the property. It was agreed that Shivaji would pay the due proportion of the installment upto the date of seizure and also a further sum of ₹ 250 towards depreciation. At the time of re-possession, Barcelona Aids valued the furniture at ₹1,500. The company after incurring ₹ 500 towards repairs of the furniture sold the items for ₹ 1,800 on 15th October, 2014.
Required: Prepare the Ledger Accounts in the books of the Vendor and the Purchaser presuming that the purchaser charges depreciation @ 10% p.a.

(b) A Ltd. was incorporated on 01.01.2014 with an authorized capital of 25 crore. The subscribers to the memorandum and articles of association subscribed for 1,000 shares of ₹ 10 each. The promoters and well wishers subscribed and paid for 49,900 equity shares of ₹ 10 each. The company took over the running business of Magadha Bros, and allotted 1,50,000 equity shares of ₹ 10 each at par. The company made a public issue of 8,00,000 equity shares of ₹ 10 each at par, ₹ 5 being payable on application, ₹ 3 on allotment and ₹2 on call. Application monies were receivable by 28.02.2014, allotment was made on 31.03.2014, allotment monies were due by 30.4.2014, first call was made on 31.5.2014; first call was due by 30.6.2014. Public applied for in full. Allotment monies were received from all members except holders of 500 shares. Call monies were received from all members except holders of 800 shares (including those who had not paid allotment money).
After due notice, the 800 shares were forfeited on 30.9.2014. They were re-issued on 31.10.2014 at ₹ 11 per share.

You are asked to:

Record the above transactions through the Journal of A Ltd

[10+5]

Solution:

(a)

Books of Shivaji Furniture Account

Dr.			Cr.		
Date	Particulars	₹	Date	Particulars	₹
01.01.14	To Barcelona Aids	3,010	30.09.14	By Depreciation A/c (10% on ₹ 3,010 for 9 months)	226
				By Barcelona Aids	1,414
				By Profit & Loss A/c (Loss)	1,370
		3,010			3,010

Barcelona Aid's Account

Dr.			Cr.		
Date	Particulars	₹	Date	Particulars	₹
30.06.14	To Cash A/c	800	01.01.14	By Furniture A/c	3,010
	To Cash A/c		30.06.14	By Interest A/c	75
30.09.14	(₹ 400 + ₹ 500)	900	30.09.14	By Interest	29
30.09.14	To Furniture	1,414		(on ₹ 2,285.25 @ 5% p.a.)	
		3,114			3,114

Answer to PTP_Intermediate_Syllabus 2008_Jun2015_Set 1

Interest Account

Dr.			Cr.		
Date	Particulars	₹	Date	Particulars	₹
30.06.14	To Barcelona Aids	75		By Profit & Loss A/c	104
30.09.14	To Barcelona Aids	29			
		104			104

An Extract of Profit and Loss Account of Shivaji

Dr.			Cr.		
Date	Particulars	₹	Date	Particulars	₹
	To Interest	104			
	To Loss on Seizure of goods	1,370			
	To Depreciation on Furniture	226			
		1,700			

Books of Barcelona Aid Shivaji's Account

Dr.			Cr.		
Date	Particulars	₹	Date	Particulars	₹
01.01.14	To Hire Purchase Sales A/c	3,010	30.06.14	By Bank A/c	800
30.06.14	To Interest A/c (on ₹ 3,010)	75	30.06.14	By Bank A/c	600
30.09.14	To Interest A/c (on ₹ 2,285.25)	29	30.09.14	By Profit & Loss A/c	214
			30.09.14	Loss on valuation of goods (repossessed)	
				BY H.P. Goods Repossessed A/c	1,500
		3,114			3,114

Hire Purchase Goods Repossessed Account

Dr.			Cr.		
Date	Particulars	₹	Date	Particulars	₹
30.09.14	To Shivaji	1,500	15.10.14	By Cash A/c (Sales)	1,800
30.09.14	To Cash (Expenses)	250			
15.10.14	To Profit and Loss A/c (Profit on sale of repossessed goods)	50			
		1,800			1,800

An Extract of Profit and Loss Account of Barcelona Aid

Dr.		Cr.	
Particulars	₹	Particulars	₹
To Loss on Valuation of goods repossessed	214	By Interest on H.P. Sales	104
		By Hire Purchase Goods Repossessed A/c (Profit)	50

Answer to PTP_Intermediate_Syllabus 2008_Jun2015_Set 1

(b)		Books of A Ltd.		Cr.	
Dr.		Cash Book (Bank Column)		Cr.	
Date	Particulars	Amount (₹)	Date	Particulars	Amount (₹)
01.01.14	To Equity Share Capital A/c [Amount received on issue of 1,000 Equity Shares of ₹ 10 each]	10,000	31.10.13	By Balance c/d	85,14,700
01.01.14	To Equity Share capital A/c [Amount received on issue of 49,900 Equity Shares of ₹ 10 each]	4,99,000			
28.2.14	To Equity Share Application A/c [Application money received @ ₹ 5 each on 8,00,000 Equity shares]	40,00,000			
30.4.14	To Equity Share Allotment A/c [Allotment money received @ ₹ 3 per share except on 500 shares]	23,98,500			
30.6.14	To Equity Share First Call A/c [First Call received except on 800 shares]	15,98,400			
31.10.14	To Re-Issue A/c [Amount received on re-issue of 800 shares @ ₹ 11 each]	8,800			
		85,14,700			85,14,700

Journal Entries

Date	Particulars	L. F.	Dr.	Cr.
			Amount ₹	Amount ₹
01.01.14	Business Purchase A/c.....Dr. To Equity Share Capital A/c [1,50,000 Equity Shares of ₹ 10 each issued at par to Magadha Bros, as purchase consideration for their business taken over]		15,00,000	15,00,000
28.02.14	Equity Share Application A/c.....Dr. To Equity Share Capital A/c [Application money transferred on 8,00,000 shares @ ₹ 5 each as per Board's Resolution No.... dated....]		40,00,000	40,00,000
31.03.14	Equity Share Allotment A/c.....Dr. To Equity Share Capital A/c [Allotment money on 8,00,000 shares @ ₹ 3 per share transferred as per Board's Resolution No....dated....]		24,00,000	24,00,000
31.05.14	Equity Share First Call A/c.....Dr. To Equity Share Capital A/c [First Call made on 8,00,000 shares @ ₹ 2 per share and the amount transferred as per Board's Resolution No...dated....]		16,00,000	16,00,000
30.09.14	Equity share capital A/c.....Dr. To Equity Share Allotment A/c [500 x ₹ 3] To Equity Share First Call A/c [800 x ₹ 2] To Forfeited Share A/c [800 shares of ₹ 10 each, fully called forfeited for non payments of allotment on 500 shares and first call on 800 shares as per....]		8,000	1,500 1,600 4,900

Answer to PTP_Intermediate_Syllabus 2008_Jun2015_Set 1

31.10.14	Re- Issue A/c [800 x ₹11].....Dr. To Equity share capital A/c [800 x ₹10] To Securities Premium [800 x Re 1] [800 forfeited shares re-issued at a premium as per Board's resolution No.....dated.....]		8,800	8,000 800
31.10.14	Forfeited shares A/c.....Dr. To capital reserve A/c [Profit on re- issue of forfeited shares transferred to Capital reserve]		4,900	4,900

Working Notes:

1. Amount Forfeited

	₹
Share applications Received [800 x ₹5]	4,000
Share Allotment received [300 x ₹3]	900
	4,900

5. (a) The Promoters of proposed Air Ltd. purchased a running business on 01.01.2014 from Pollution Ltd. Air Ltd. was incorporated on 1st May 2014. The combined Profit and Loss Account of the company prior to and after the date of incorporation is as under:

Profit and Loss account for the year ended 31st December, 2014

Particulars	Amount ₹	Particulars	Amount ₹
To Rent, Rates & Salaries etc.	9,000	By Gross Profit	1,50,000
To Directors' sitting Fees	4,900	By Discount received from Creditors	6,000
To Preliminary Expenses	3,600		
To Carriage Outwards	6,500		
To Interest Paid to Vendors	12,000		
To Net Profit	1,20,000		
	1,56,000		1,56,000

Following further information is available:

- (i) Sales up to 31.04.2014 were ₹3,00,000 out of total sales of rs.15,00,000 for the year.
- (ii) Purchase up to 31.04.2014 were ₹3,00,000 out of total purchase of ₹9,00,000 for the year.
- (iii) Interest paid to vendors on 1st November, 2014 @ 12% p.a. ₹1,00,000 being purchase consideration.

Prepare a profit & Loss Account for the year ended 31st December, 2014 showing the profits earned prior to and after incorporation showing the transfer of the same to appropriate accounts.

- (b) A Head Office of Bombay has a Branch at Madras in charge of a manager. The ratio of gross profit on turnover at the Breach was 25 per cent throughout the year. The Branch Manager is entitled to a commission of 10% of the profit earned by the Branch calculated before charging his commission, but subject to a deduction from such commission a sum equal to 50% of any ascertained deficiency on Branch Stock. All goods were supplied by the Head Office to the Branch.

From the following figures extracted from the Branch Books, calculate the commission due to the manager for the year ended 31st December, 2014.

	₹
Stock on 1.1.13 at Selling Price	20,806
Goods received from Head Office at Cost	54,360
Sales	73,200
Establishment Expenses	11,250
Drawings by Manager against commission	500
Stock on 31.12.13 at selling price	19,900

Answer to PTP_Intermediate_Syllabus 2008_Jun2015_Set 1

(c) Best Ltd. gives you the following information to find out Total Sales and Total Purchases:

Particulars	₹	Particulars	₹
Debtors as on 01.01.2013	65,000	Discount allowed by suppliers	8,000
Creditors as on 01.04.2013	80,000	Discount allowed to customers	10,000
Bills receivable received during the year	45,000	Endorsed bills receivable dishonoured	5,000
Bills receivable issued during the year	52,000	Sales return	9,000
Cash received from customer	1,55,000	Bills receivable discounted	8,000
Cash paid to suppliers	1,70,000	Discounted bills receivable dishonoured	3,000
Bad debts recovered	16,000	Cash sales	1,68,000
Bills receivables endorsed to creditors	28,000	Cash purchase	1,95,000
Bills receivables dishonoured by customers	6,000	Debtors as on 31.03.2014	83,000
		Creditors as on 31.03.2014	95,000

[5+5+5]

Solution:

(a) Working Notes:

- (i) Sales Ratio between Pre- Incorporation and Post – Incorporation periods = 3,00,000 : 12,00,000 = 1 : 4.
- (ii) Purchase Ratio = 3,00,000: 6,00,000 = 1: 2.
- (iii) Time Ratio = 4 months: 8 months = 1: 2.
- (iv) Time ratio regarding interest on purchase consideration = 4 months: 6 months (1.5.2014 to 31.10.2014) = 2 : 3.

Air Ltd.

Profit & Loss Account for the year ended 31.12.2014

Dr.			Cr.		
Particulars	Pre- Incorporation 01.01.14 to 31.04.14	Post- Incorporation 01.05.14 to 31.12.14	Particulars	Pre- Incorporation 01.01.14 to 31.04.14	Post- Incorporati on 01.05.14 to 31.12.14
	₹	₹		₹	₹
To Rent, Rate & Salaries [9,000 in time Ratio 1 : 2]	3,000	6,000	By gross Profit [1,50,000 as 1 : 4]	30,000	1,20,000
To Directors' Sitting Fees	-	4,900	By Discount Received from Creditors [6,000 as 1 : 2] (Purchase Ratio)	2,000	4,000
To Preliminary Expenses	*3,600	-			
To Carriage Outward [6,500 in sales Ratio 1 : 4]	1,300	5,200			
To Interest on Purchase consideration [2 : 3]	4,800	7,200			
To Capital Reserve	19,300				
To Balance c/f		1,07,900			
	32,000	1,24,000		32,000	1,24,000

Answer to PTP_Intermediate_Syllabus 2008_Jun2015_Set 1

* In this problem Pre- Incorporation Profits have been used to write off preliminary expenses before any balance is transferred to capital reserve. Students can charge such expenses against Post- Acquisition Profits also. In that case transfer to capital reserve should be ₹22,900.

(b) Note:

The Branch Manager's commission depends on two aspects:

(1) The Net Profit of the Branch and (2) any ascertained deficiency on Branch Stock.

No specific method for showing these two aspects have been prescribed.

Let us prepare the Branch Stock Account (Columnar) and the Profit & Loss Account.

Books of Head Office at Bombay Memorandum Branch Stock Account

Dr.					Cr.	
Particulars	I.P. ₹	C.P. ₹	Particulars	I.P. ₹	C.P. ₹	
To Balance b/f [C.P. = 20,806 x ¾]	20,806	15,605	By Sales A/c	73,200	73,200	
`` Goods sent to Branch A/c [S.P. = 54,360 x 4/3]	72,480	54,360	`` Stock Deficiency A/c [S.P./I.P. = Bal. Fig. = 186 C.P. = 186 x ¾]	186	140	
`` Branch Profit & Loss A/c (Gross Profit)		18,300	`` Balance c/f: [C.P. = 19,900 x ¾]	19,900	14,925	
	93,286	88,265		93,286	88,265	

Branch Profit & Loss Account

Dr.			Cr.	
Particulars	₹	Particulars	₹	
To Stock Deficiency A/c	140	By Branch Stock A/c (Gross Profit)	18,300	
`` Establishment Expenses	11,250			
`` Balance c/d (Net Profit before Commission)	6,910			
	18,300		18,300	
To Manager's Commission [Note II]	621	By Balance b/d	6,910	
`` General P/L A/c [Br. Net Profit]	6,289			
	6,910		6,910	

Workings:

(i) Here Ratio of Gross Profit included in Selling Price = 25%

∴ Cost Price = 75% or ¾ of Selling Price (or Invoice Price) and Selling Price = 4/3 of Cost Price.

(ii) Branch Manager's Commission

Particulars	₹	₹
10% of Net Profit before charging Commission [10% of 6,910]	691	
Less: Deduction @ 50% of Stock Deficiency [50% of 140]	70	
Net Commission Payable		621
Less: Commission already Drawn		500
Outstanding Commission		121

Answer to PTP_Intermediate_Syllabus 2008_Jun2015_Set 1

(c)

Dr.	Total Debtors Account		Cr.
Particulars	₹	Particulars	₹
To balance b/d (given)	65,000	By Cash/ Bank A/c (Cash received)	1,55,000
To Bills Receivable A/c (Dishonoured)	6,000	By Discount Allowed A/c	10,000
To Creditors A/c (Dishonour of endorsed B/R)	5,000	By Bills Receivable A/c (B/R Received)	45,000
To Bank A/c (Discounted B/R dishonoured)	3,000	By Sales Returns A/c	9,000
To Sales A/c. (Bal Fig = Credit Sales)	2,23,000	By balance c/d (given)	83,000
	3,02,000		3,02,000

Dr.	Total Creditors Account		Cr.
Particulars	₹	Particulars	₹
To Cash/ Bank A/c (Payment)	1,70,000	By balance b/d (given)	80,000
To Discount received A/c	8,000	By Debtors A/c (dishonour of endorsed B/R)	5,000
To Bills payable A/c (issued)	52,000	By Purchase A/c (Bal Fig = Credit Purchase)	2,68,000
To Bills receivable (endorsement)	28,000		
To balance c/d (given)	95,000		
	3,53,000		3,53,000

Total Sales = Credit Sales + Cash Sales = ₹ (2,23,000 + 1,68,000) = ₹ 3,91,000

Total Purchase = Credit Purchase + Cash Purchase = ₹ (2,68,000 + 1,95,000) = ₹ 4,63,000

6. (a) The following is the Receipts and Payments Account of the East Bengal Club for the year ended December, 31, 2014:

Receipts	₹	Payment	₹
Cash in hand	2,000	Remuneration to Club Coach	4,000
Balance at Bank as per Pass Book:		Groundman's Pay	3,000
Savings Account	19,300	Purchase of Equipments	15,500
Current Account	6,000	Bar Room Expenses	2,000
Bank Interest	500	Ground Rent	2,800
Entrance Fees	1,800	Club Night Expenses	4,000
Donations & Subscriptions	25,000	Printing & Stationery	3,000
Bar Room Receipts	4,000	Repairs to Equipments	5,000
Contribution to Club Night	1,000	Honorarium to Secretary for the year 2014	4,000
Sale of Equipment	800	Balance at Bank as per Pass Book:	
Net Proceeds of Club Night	7,800	Savings Account	20,400
		Current Account	2,000
		Cash in hand	2,500
	68,200		68,200

You are given the following additional information:

	1.1.14	31.12.14
(i) Subscription due from members	1,500	1,000
(ii) Sums due for Printing & Stationery	1,000	800
(iii) Unpresented cheques on Current A/c, being payments for repairs	3,000	2,500
	---	200

Answer to PTP_Intermediate_Syllabus 2008_Jun2015_Set 1

(iv) Interest on Savings Account not entered in Pass Book	8,000	17,500
(v) Estimated value of Equipments		
(vi) For the year ended 31 st December, 2014, the honorarium to secretary are to be increased by a total of ₹ 2,000 and the grounds' man is to receive a bonus of ₹ 2,000.		

You are required to prepare: (i) an Income & Expenditure Account for the year ended 31st December, 2014 and (ii) a Balance Sheet on that date.

(b) Ghuri Ltd undertook a Contract to construct a building for ₹ 85 Lakhs. At the end of the financial year, the Company found that it had already spent ₹ 65,99,000 on Construction. Prudent estimate of the additional cost for completion was ₹ 33,01,000. What is the additional provision for foreseeable loss which must be made in the final accounts for the year ended 31st March? If the progress billings received were ₹ 50 Lakhs on 31st March, what is the amount due from / to customers? [8+7]

Solution:

(a)

Working Notes:

(i) Calculation of Bank Balance as per Cash Book:

	Savings Account		Current Account	
	1.1.14	31.12.14	1.1.14	31.12.14
	₹	₹	₹	₹
Balance as per Pass Book	19,300	20,400	6,000	2,000
Add: Interest on Savings Account not entered in Pass Book		+ 200		
Less: Unpresented Cheques on Current Account			-3,000	-2,500
Balances as per Cash Book	19,300	20,600	3,000	500(O/D)

(ii) Annual Depreciation on Equipment

	₹	₹
Value on 1.1.2014	8,000	
Add: Purchase during '14	15,500	23,500
Less: Sale of Equipment		800
Closing Value on 31.12.2014	17,500	18,300
		5,200

(iii) Calculation of Opening Capital Fund (on 1.1.2014)

Balance Sheet as on 1.1.2014

Liabilities	Amount ₹	Assets	Amount ₹
Outstanding Liabilities for:		Cash in hand	2,000
Printing & Stationery	1,000	Cash at Bank:	
Honoraria to Secretary	4,000	Savings Account	19,300
Capital Fund	28,800	Current Account	3,000
[Excess of Assets over Liabilities]		Subscriptions Due	1,500
		Equipment	8,000
	33,800		33,800

Answer to PTP_Intermediate_Syllabus 2008_Jun2015_Set 1

East Bengal Club Income and Expenditure Account for the year ended 31.12.14

Dr.			Cr.		
Expenditure	Amount ₹	Amount ₹	Income	Amount ₹	Amount ₹
To Remuneration to Coach		4,000	By Bank Interest	500	
`` Groundman's Pay		3,000	Add: Not recorded	200	700
`` Outstanding Bonus to Ground man		2,000	`` Entrance Fees (not capitalized)		1,800
`` Ground Rent		2,800	`` Donation & Subscriptions:	25,000	
`` Club Night Expenses		4,000	Add: Due for '14	1,000	
`` Printing & Stationery	3,000			26,000	
Add: Due for '14	800		Less: Due for '13	1,500	24,500
	3,800		`` Income From Bar Room:		
Less: Due for '13	1,000	2,800	Receipts	4,000	
`` Repairs to Equipment	5,000		Expenses	2,000	2,000
Add: Unpresented Cheque for '14	2,500		`` Contribution to Club Night		1,000
	7,500		`` Net Proceeds of Club Night		7,800
Less: Unpresented cheque for '13	3,000	4,500			
`` Honoraria to Secretary	4,000				
Less: Paid for 2013	4,000				
	Nil				
Add: Outstanding for 2014 [4,000 + 2,000]	6,000				
`` Depreciation on Equipment		6,000			
`` Surplus (Excess of Income over expenditure)		5,200			
		3,500			
		37,800			37,800

Balance Sheet as on 31.12.2014

Liabilities	Amount ₹	Amount ₹	Assets	Amount ₹	Amount ₹
Outstanding Liabilities for:			Cash in hand		2,500
Printing & Stationery	800		Cash at Bank:		
Honoraria to Secretary	6,000		Savings Account		20,600
Groundman's Bonus	2,000	8,800	Subscriptions due		1,000
Bank Overdraft as per Current A/c		500	Equipments		17,500
Capital Fund : Opening Balance	28,800				
Add: Surplus	3,500	32,300			
		41,600			41,600

(b) Estimated Total Contract Costs = Cost till date + Further Costs = ₹ 65,99,000 + ₹ 33,01,000 = ₹ **98,00,000**
 Percentage of Completion = $\frac{\text{Cost incurred till date}}{\text{Estimated Total Costs}} = \frac{65.99}{98.00} = 67\%$
 Total Expected Loss to be provided for = Contract Price - Total Costs = ₹ 85 - ₹ 98 = ₹ **13,00,000**.

Contract Revenue	[67% of ₹ 85 Lakhs]	= ₹ 56,95,000
Less: Contract Costs		= ₹ 65,99,000
Loss on Contract		= ₹ 9,04,000
Less: Further provision required in respect of expected loss		= ₹ 3,96,000 (Bal. Figure)
Expected Loss recognized		= ₹ 13,00,000

Amount due from / to customers = Contract Costs + Recognized Profits - Recognized Losses - Progress Billings = 65,99,000 + Nil - ₹ 13,00,000 - ₹ 50,00,000 = ₹ 2,99,000 Amount Due From Customers.

Answer to PTP_Intermediate_Syllabus 2008_Jun2015_Set 1

This amount of ₹ 2,99,000 will be shown in the Balance Sheet as a Asset.

The relevant disclosures under AS - 7 are as follows -

Particulars	Computation	Amount (₹)
(a) Contract Revenue		56,95,000
(b) Contract Expenses		65,99,000
(c) Loss on Contract		(9,04,000)
(d) Expected Losses	(as provided for above)	3,96,000
(e) Recognized Profits less Recognized Losses		13,00,000
(f) Progress Billings	(presumed fully billed & received)	50,00,000
(g) Retentions	(billed but not received from Contractee)	Nil
(h) Gross Amount due to Customers	(as calculated above)	2,99,000

7. (a) ICICI Lombard, a Insurance Company commenced its business on 1.4.2013. It submits you the following information for the year ended 31.3.2014:

	₹
Premium received	15,00,000
Re-insurance premium paid	1,00,000
Claim paid	7,00,000
Expenses of Management	2,50,000
Commission paid	1,00,000
Claims outstanding on 31.3.2013	1,00,000

Create reasons for unexpired risk @ 40%.

Prepare Revenue Account for the year ended 31st March, 2014.

- (b) The Trial Balance of S. Auddy as on 31.12.2014 did not agree and the difference was transferred to a Suspense Account.

Subsequently the following errors were detected:

- (i) The total of one page of the Sales Day Book was carried forward to the next page as ₹4,513 instead of ₹ 4,531.
- (ii) The total of the Purchase Day Book was undercast by ₹400.
- (iii) A Cash discount of ₹ 150 received from a creditor was debited to Discount account.
- (iv) ₹1,450 spent on repairs of Delivery Van was debited to Motor Vehicles Account.
- (v) ₹300 received from M. Ghosh was debited to the Account of N. Ghosh in the Sales Ledger.
- (vi) Goods worth ₹700 returned by Islam were not entered in the books at all.

- (c) Mention three names of Intangible Assets other than goodwill, patents and copy right.

[6+6+3]

Answer to PTP_Intermediate_Syllabus 2008_Jun2015_Set 1

Solution: (a)

Form B - RA (Prescribed by IRDA)
Name of the Insurer: ICICI Lombard Ltd.
Registration No. and Date of Registration with IRDA...
Revenue Account for the year ended 31st March, 2014

Particulars	Schedule	₹
Premiums earned – net	1	8,40,000
Total (A)		8,40,000
1. Claims Incurred (Net)	2	8,00,000
2. Commission	3	1,00,000
3. Operating Expenses	4	2,50,000
Total (B)		11,50,000
Operating Profit / (Loss) from Insurance Business C = (A - B)		(3,10,000)

Schedule 1 — Premium Earned (Net)

Particulars	₹
Premiums Received	15,00,000
Less: Re – Insurance premium paid	1,00,000
Net Premium	14,00,000
Adjustment for changes in Reserved for unexpired risk (Nil - *₹ 5,60,000)	(5,60,000)
	(3,10,000)

Schedule 2 — Claims Incurred (Net)

Particulars	₹
Claims Paid	7,00,000
Add: Claim outstanding at the end of the year	1,00,000
Total	8,00,000

Schedule 3 — Commission

Particulars	₹
Commission Paid	1,00,000

Schedule 4 — Operating Expenses

Particulars	₹
Expenses of Management	2,50,000

*40% of ₹ 14,00,000 = ₹ 5,60,000.

(b)

Books of S. Auddy Journal

Date	Particulars	L. F.	Dr.	Cr.
			Amount ₹	Amount ₹
31.12.14	(i) Suspense A/c.....Dr. To Sales A/c [Sales Account under credited, now rectified]		18	18
	(ii) Purchase A/c.....Dr. To Suspense A/c [Total of Purchase day Book undercast by ₹400, now rectified]		400	400
	(iii) Suspense A/c.....Dr. To discount (Allowed) A/c To discount received A/c		300	150 150

Answer to PTP_Intermediate_Syllabus 2008_Jun2015_Set 1

[Cash discount of ₹150 received from a creditor wrongly debited to discount Account, now rectified]			
(iv) Repairs A/c.....Dr. To Motor vehicles A/c [Amount spent on repair of Delivery Van wrongly debited to Motor Vehicles Account, now rectified]	1,450		1,450
(v) Suspense A/c..... Dr. To M. Ghosh A/c (Debtors) To N. Ghosh A/c (Debtors) [₹300 received from M. Ghosh debited to N. Ghosh Account, now rectified]	600		300 300
(vi) Return Inward A/c..... Dr. To Islam A/c [Return Inward from Islam omitted to be recorded, now entered]	700		700

(c) Name the three Intangible Assets other than goodwill patents and copyright:-

- (i) Costs of research and development.
- (ii) Payments on Accounts
- (iii) Concessions, Licenses, Trade Marks and similar rights and assets.

8. Write on short notes (any 3)

[3 x 5 = 15]

(a) Features of Income and Expenditure.

(b) Profit prior to Incorporation.

(c) Cum-interest and ex-interest price.

(d) Surrender value of Policy.

Solution:

(a) Features of Income and Expenditure Account

- (i) It follows Nominal Account.
- (ii) All expenses of revenue nature for the particular period are debited to this Account on accrual basis.
- (iii) Similarly all revenue incomes related to the particular period are credited to this account on accrual basis.
- (iv) All Capital incomes and Expenditures are excluded.
- (v) Only current year's incomes and expenses are recorded. Amounts related to other periods are deducted. Amounts outstanding for the current year are added.
- (vi) Profit on Sale of Asset is credited. Loss on Sale of Asset is debited. Annual Depreciation on Assets is also debited.
- (vii) If income is more than expenditure, it is called a Surplus, and is added with Capital or General Fund etc. in the Balance Sheet.
- (viii) If expenditure is more than income, it is a deficit, and is deducted from Capital or General Fund etc. in the Balance Sheet.

(b) Profit prior to incorporation.

Sometimes a new Company is formed to take over an existing business as a going concern from a date prior to its date of incorporation. The profit so earned by the newly formed Company will be Profit prior to incorporation. The date of incorporation is taken as the basis for calculation of pre-acquisition profit.

Profit earned prior to incorporation is a Capital Profit. Any profit prior to incorporation may be

- (a) Credited to capital reserve account

(b) Credited to goodwill account to reduce the amount of goodwill arising from acquisition of business

(c) Utilized to write down the value of fixed assets acquired.

(c) Cum-Interest and Ex-Interest Price

When debentures are purchased in the open market, a distinction has to be made between the capital portion and the revenue portion of the total amount paid for acquiring the debentures. The phrase 'cum interest price' is used to denote the total amount paid to the seller to acquire the debentures. If the interest accrued on purchased debentures from the previous date of payment of debenture-interest to the date of the transaction is deducted from the cum-interest price, we will get ex-interest price which is the capital portion of the total amount paid, the accrued interest being the revenue portion. Cum interest price is the total amount realized. Interest accrued is credited to interest on Own Debenture Account and the balance which is the ex-interest price is credited to Own Debentures Account. Ex-interest sale price is compared with the ex-interest purchase price to ascertain the profit or loss on resale of own debentures. On cancellation of own debentures ex-interest purchase price is compared with the face value of own debentures cancelled to ascertain the profit or loss on cancellation.

(d) Surrender value of policy

In the case of life policy, the policy normally has value only when it matures. But to facilitate the promotion of business insurance companies assign value to the policy on the basis of the premium paid. Insurance companies will be prepared to pay such value on the surrender of the policy by a needy policy holder desiring to realize the policy. Therefore the value is referred to as 'surrender value'. Surrender value is usually nil until at least two premiums are paid. Amount paid as surrender value is expenditure and is similar to claims paid. Thus surrender value is the amount the policy holder will get from the life insurance company if he decides to exit the policy before maturity.