Paper 5- Financial Accounting

Full Marks:100 **Time allowed: 3 hours**

[This paper contains 7 questions. All questions are compulsory, subject to instruction provided against each question. All workings must form part of your answer.]

1. Answer All questions (give workings) [2 x 10=20]

(i) 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.

(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?

(iii) Kapil Ltd. acquired 2,000 Equity Shares of Kumar Ltd. on cum-right basis at ₹ 75 per Share. Subsequently, Kumar Ltd. made a Rights issue of 2 : 1 at ₹ 60 per Share, which was subscribed for by Kapil Ltd. Calculate cost of total investments at the year end.

(iv) 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?

(v) Hari Ltd maintains Self-Balancing Ledgers preparing Control Accounts at the end of each calendar month. On 3rd January, the accountant of the company located the following errors in the books of account –

- The Sales Book of previous month, i.e., December, was undercast by ₹ 1,000.
- Goods invoiced at ₹ 15,600 were returned to Supplier, M/s. Mega Ltd but no entry was made in the books for this Return made on 28th December.

Pass necessary Journal Entries.

(vi) Goods costing ₹ 6,30,000 were sent out to consignee at a profit of 20 percent on invoice price. Consignee sold 2/3rd goods for ₹ 6,00,000. Consignee was entitled to an ordinary commission of 3 percent on sales at invoice price and over-riding commission of 20 percent of any surplus realized.
Compute the Stock Reserve on Closing Stock.

(vii) 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.

(viii) Amrit Ltd. has signed at 31st Dec, the Balance Sheet date, a contract where the Total revenue is estimated at ₹30 Crores and Total Cost is estimated at ₹40 Crores. No work began on the contract. Is the Contractor required to give any accounting effect for the year ended 31st December?

(ix) 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?

(x) Calculate the interest income to be recognised for X Bank Ltd. for the year ended 31.03.2013 from the following information: (₹ in Crores)

Interest	Total Interest collected	Earned but not collected	
		On PA	On NPA
Interest on Cash Credit	2,000	800	840
Interest on Overdraft	600	200	700
Interest on Term Loan	2,000	80	1,000

2. Answer any two questions.

(a) There was a difference in Trial Balance of Shri Viman Sen, 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:

(i) ₹ 2,296 paid for Repairs to Motor Car was debited to Motor Car Account as ₹ 696.
(ii) ₹ 400 being Purchase Returns posted to the debit of Purchases Account.
(iii) While carrying forward total of one page in Sumit Basu's Account, the amount of ₹ 1,000 was written on the credit side instead of the debit side.
(iv) A cheque of ₹ 6,100 received from Sankari Das (after allowing her a discount of ₹ 92) was endorsed to Pranab Garg 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. **[2+2=4]**

(b) Mr. Banerjee request you to Amended Cash Book for January 2013, as his cash clerk reported a figure of ₹23,030 (credit) as on 31.1.2013. Scrutiny revealed the following discrepancies:

- Cheques issued and deposited by the cash clerk in January 2013, were ₹30,000 and ₹14,000 respectively. However, against the above, the Bank had paid out and debited cheques worth ₹18,000 only and cleared and credited cheques worth ₹8,000 only, by 31.1.2013.
- A customer had paid in ₹12,800 directly into Mr. Banerjee's Bank account, the effect which was not recorded in the Cash Book.
- Bank commission of ₹90 charged was recorded in the Pass Book.
- Total cash withdrawals of ₹6,000 by self and bearer cheques for office use, were recorded erroneously as ₹10,000 in the Cash Book. **[4]**

(c) List the items that are not considered to be inventory as per AS 2 though appears to be inventory in common parlance. **[4]**

3. Answer any two questions.

(a) (i) Mr. P , purchased a machinery on hire purchase basis from Mr. Q on the following terms:

- Cash down payment - 33⅓%;
- Three half-yearly instalments of ₹8,200,₹7,440 and ₹6,300, the first to commence at the end of 6 months from the date of cash down payment;
- Interest to be charged by the vendor 10% p.a. calculated on half yearly rates.

Compute the Cash Price of the Machinery. **[4]**

(ii) 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]

(iii) 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). **[1+1+1+1=4]**

(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
		By General Charges	50
To Drawn from Bank	4,000	By Secretary's Honorarium	170
To Donations	10,000	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. **[12]**

(c) (i) 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. **[2+2+3=7]**

(ii) 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]

4. Answer any two questions.

(a) The net total balances extracted from purchases ledger of Mr. M on March, 2013 amounted to ₹ 12,560 which did not agree with balance on the Purchase Ledger Control Account.

The audit revealed the following errors which were appropriately adjusted to make the books balances:

- A debit balance of ₹40 in the Purchase Ledger and been recorded as a credit balance.
- Mr. N had been debited for goods returned to him ₹90 but no other entry was made.
- The Purchase Day Book had been overcast by ₹100.
- Credit balance on the Purchase Ledger amounting to ₹480 and the debit balance amounting to ₹20 had been omitted from the list of the balances.

You are to prepare:

A. A statement reconciling the original net balance extracted from the Purchase ledger with the corrected balance on the Purchase Ledger Control Account; and
B. The Purchase Ledger Control Account showing the balance just before the correction of the errors and the adjustments made thereon.

[2+2=4]

(b) Mention any four advantages of Self-Balancing System. **[4]**

(c) From the following particulars prepare the General Ledger Adjustment Account as it would appear in the Consignment Ledger of Delhi Enterprises:

Date	Particulars	Bombay ₹	Calcutta ₹	Kanpur ₹	Madras ₹	Lucknow ₹	Patna ₹
01.01.2013	Balance of Consignment Stock	60,000	60,000	50,000	70,000	20,000	20,000
31.12.2013	Goods Sent on Consignment	2,00,000	3,00,000	4,00,000	2,00,000	1,00,000	1,50,000
	Expenses	10,000	20,000	10,000	5,000	10,000	15,000
	Sales	4,00,000	5,00,000	6,00,000	3,00,000	2,00,000	2,50,000
	Stock on Consignment	---	---	10,000	15,000	20,000	20,000

Commission in each case is 10% on sales. **[4]**

5. Answer any two questions.

(a) A consigned 300 units to B at a cost of ₹100 each.
Expenses were : (i) Paid by A – Freight ₹800 and Insurance ₹200.
(ii) Paid by B – Dock charges ₹200 and godown rent ₹100.
Commission payable to B – 10% on sales.
B sold 250 units @ ₹175 each and reported a deficiency of 10 units agreeing however to bear 50% of such deficiency. Show the journal entries in the books of A. **[5+1+2=8]**

(b) (i) D Purchased 500 equity shares of ₹100 each in the Mohan Ltd. for ₹62,500 inclusive of brokerage and stamp duty. Some years later the company decided to capitalize its profit and to issue to the holders of equity shares one equity share as Bonus for every equity share held by them. Prior to capitalization, the shares of Mohan Ltd. were quoted at ₹175 per share. After the capitalization, the shares were quoted at ₹92.50 per share. D sold the Bonus shares and received ₹90 per share. Show Investment A/c in D's books on average cost basis as per AS 13. **[5]**

(ii) Write a note on the following:
Proportionate Discount Charges. **[3]**

(c) The premises of XY Ltd. were partially destroyed by fire on 1st March,2013 and as a result, the business was practically disorganized upto 31st August, 2013. The company is insured under a loss of profits policy for ₹ 1,65,000 having an indemnity period of 6 months.

From the following information, prepare a claim under the policy:

Sl. No.	Particulars	Amount (₹)
(i)	Actual turnover during the period of dislocation (1.3.2013 to 31.8.2013)	80,000
(ii)	Turnover for the corresponding period (dislocation) in the 12 months immediately before the fire	2,40,000
(iii)	Turnover for the 12 months immediately preceding the year fire (1.3.2012 to 28.2.2013)	6,00,000
(iv)	Net Profit for the last financial year	90,000
(v)	Insured standing charges for the last financial year	60,000
(vi)	Uninsured standing charges	5,000
(vii)	Turnover for the last financial year	5,00,000

Due to substantial increase in trade, before and up to the time of fire, it was agreed that an adjustment of 10% should be made in respect of the upward trend in turnover. The company incurred additional expenses amounting to ₹ 9,300 immediately after the fire and but for this expenditure, the turnover during the period of dislocation would have been only ₹ 55,000. There was also a saving during the indemnity period of ₹ 2,700 in insured standing charge as a result of the fire. **[8]**

6. Answer any two questions.

(a) 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. **[4]**

(b) Write a note on — MOU [The Minutes of Usage]. **[4]**

(c) Calculate the contract revenue from the following details

(₹ In Crores)

Particulars	Years I	II	III
1. Initial contract revenue	3000	3000	3000
2. Revenue increase due to escalation in IInd year	---	600	---
3. Claim			300
4. Incentive Payment			450
5. Penalties		150	

[4]

7. Answer any two questions.

(a) (i) From the following information Calculate Return on Equity as per Regulation 21 of the Central Electricity
Regulatory Commission (Terms and Conditions of Tariff) Regulations, 2004:

- Date of Commercial Operation of COD = 1st April 2010
- Approved Opening Capital Cost as on 1st April 2010 = ₹ 15,00,000
- Details of allowed Additional Capital Expenditure. Repayment of Loan and Weighted Average

Rate of Interest on Loan is as Follows:

	1st year	2nd year	3rd year	4th year
Additional Capital Expenditure (Allowed)	1,00,000	30,000	20,000	10,000

[4]

(ii) Discuss the steps involved in ODRC Method (Optimised Depreciated Replacement Cost). **[4]**

(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+2+2=8]**

(c) From the following figures appearing in the books of Fire Insurance division of Vipul General Insurance Company, show the amount of claim as it would appear in the Revenue Account for the year ended 31st March, 2014:

Particulars		Direct Business ₹	Re-Insurance ₹
Claim paid during the year		70,05,000	10,50,000
Claim Payable —	1st April, 2013	11,44,500	1,30,500
	31st March, 2014	12,18,000	79,500
Claims received		-	3,44,000
Claims Receivable —	1st April, 2013	-	98,000
	31st March, 2014	-	1,69,500
Expenses of Management (includes ₹ 52,500 Surveyor's fee and ₹ 67,500 Legal expenses for settlement of claims)		3,45,000	-

[2+6=8]