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

(ii) Mr. Vikas sold 1,500, 10% debentures (face value ₹ 100 each) of Shiva Limited at ₹ 125 cum-interest on 01.12.2013. The interest is payable on 31st March and 30th September every year. Find out the actual amount received by Vikas (excluding interest) on account of sale of investment.

(iii) New Bank Ltd. informs you the following:

- Bill discount commission (unadjusted) ₹ 21,00,000
- Rebate on bills discounted as on 01.04.2012 ₹ 2,43,000
- Rebate on bills discounted as on 31.03.2013 ₹2,18,000

Compute the discount to be credited to the profit and loss account of the Bank for the year ended 31.03.2013.

(iv) ₹ 90,000 is the annual instalment to be paid for three years (given Present Value of an annuity of Re. 1 p.a. @ 5% interest is ₹ 2.7232). Ascertain the Cash Price in case of Hire-Purchase .

(v) From the following particulars, determine Closing Stock at Branch

	₹		₹
Opening stock at the Branch	60,000	Expenses:	
Goods sent to Branch	1,80,000	Salaries	20,000
Sales(Cash)	2,40,000	Other Expenses	8,000

The branch sells at cost plus 20%. The branch manager is entitled to a commission of 5% on the profits of the branch before charging such commission.

(vi) X Ltd. furnished the following particulars:

Debtors ledger include ₹9,000 due from Pin top Ltd. whereas creditors ledger include ₹ 5,400 due to Pin top Ltd.

Journalise the above.

(vii) Red Ltd. purchases goods from Yellow Ltd. for ₹ 500 crore for export. The export order was cancelled. Red Ltd. decided to sell the same goods in the local market with a price discount. Yellow Ltd. was requested to offer a price discount of 15%. The chief accountant of Yellow Ltd. wants to adjust the sales figure to the extent of the discount requested by Yellow Ltd. Discuss whether this treatment is justified.

(viii) The following data apply to a company's defined benefit pension plan for the year:

Amount (₹)

Fair market value of plan assets (beginning of year)	40,000
Fair market value of plan assets	57,000
Employer Contribution	14,000
Benefit Paid	10,000

Calculate the actual return on plan assets.

(ix) AB is in need for funds and approaches BC. BC unable to find the money, agrees to accept a bill of Exchange for ₹ 20,000 drawn on him at 3 months for accommodation. The bill was drawn, accepted and discounted with bank at 6 % p.a. On the due date AB remits the required amount to BC . Give the entry for remittance of the amount.

(x) ABC Insurance Co. Ltd. has the following balances as on 31st March –

Life Assurance Fund	₹ 3,800 Lakhs
Net Liability as per Valuation	₹ 3,000 Lakhs
Interim Bonus paid	₹ 500 Lakhs

You are required compute the profit/surplus as on 31st March.

2. (Answer any two)

(a) Mr. Right sold goods on credit to various customers. Details related to one of the customer, Mr. Good is as under:

(i) Goods sold on credit ₹7,00,000.
(ii) Goods returned by the customer ₹60,000 due to defective quality, credit note raised but not recorded.
(iii) Payment received from customer in cash ₹1,50,000 and by cheques ₹1,83,000. Out of cheques received, a cheque of ₹28,000 was dishonoured by bank.
(iv) Customer accepted two Bills of ₹21,000 and ₹64,000 for 2 months and 3 months respectively.
(v) Credit note raised against the customer ₹4,500 for excess payment charged against one of the consignment.

Mr. Good the customer is in need to ascertain the actual balance due to Mr. Right. Prepare a Reconciliation Statement. **[4]**

(b) The total of debit side of Trial balance of a larger boot and shoe repairing firm as on 31.12.2013 is ₹1,66,590 and that of the credit side is ₹42,470. After several checking and re-cheking the mistakes are discovered:

Items of Account	Correct Figure (as it would be)	Figures as it appear in the Trial Balance
Opening Stock	₹15,900	₹15,600
Repairing (shown as debit balance)	₹61,780	₹61,780
Rent & Taxes	₹4,640	₹4,400
Sundry Creditors	₹6,270	₹5,900
Sundry Debtors	₹7,060	₹7,310

Ascertain the correct total of the Trial Balance. **[4]**

(c) List the significant differences between Book Keeping and Accountancy. **[4]**

3. (Answer any two)

(a)(i) Akash Ltd. has 3 departments A ,B and C. The following information is provided:

Particulars	A ₹	B ₹	C ₹
Opening Stock	6,000	8,000	6,000
Consumption of direct materials	16,000	24,000	-
Wages	10,000	20,000	-
Closing Stock	8,000	28,000	16,000
Sales	-	-	68,000

Stock of each department is valued at cost to the department connected. Stocks of A department are transferred to B at a margin of 50% above departmental cost. Stocks of B department are transferred to C department at a margin of 10% above departmental cost. Other expenses were: salaries ₹4,000, Printing and Stationary ₹ 2,000, rent ₹12,000, Interest paid ₹8,000, Depreciation ₹6,000,. Allocate expenses in the ratio of departmental gross profit. Opening figures of reserve for unrealized profits on departmental stock were: Department B ₹2,000; Department C ₹4,000. **[8]**

(ii) On 1.1.13 the Bad & Doubtful Debts Reserve Account of a concern showed a balance of ₹ 60,000 and the Debtors amounted to ₹ 30,00,000. Out of these, during 2013, Debtors amounting to ₹ 21,50,000 paid in full, but the following debts proved bad or doubtful :

A (₹ 40,000) — bad to the full extent;

B (₹ 80,000) — insolvent, estate expected to pay 50 paise in the rupee;

C (₹ 24,000) — paid $33\frac{1}{3}$ % in full settlement.

The remaining debts were considered somewhat doubtful on December 31. The following further debts became due during 1995 but were outstanding on December 31.

D (₹ 40,000) — expected to prove totally bad;

E (₹ 1,60,000) — expected to prove 5% bad;

F (₹12,80,000) — expected to prove 4% bad;

G (₹8,00,000) — expected to prove bad to some extent;

H (₹ 25,20,000) — expected to prove wholly good.

It was decided to write off actual bad debts and make reserve of 5% on debts of unknown doubtful nature. Draw up the Bad and Doubtful Debts Reserve Account. **[4]**

(b) Sachin and Tuhin were carrying on business as equal partners. Their Balance Sheet as on 31st March 2013 stood as follows:

Capital and Liabilities		₹	Properties and Assets	₹
Capital Account:			Stock	2,70,000
- Sachin	6,40,000		Debtors	3,65,000
- Tuhin	6,60,000	13,00,000	Furniture	75,000
Creditors		3,27,500	Joint Life Policy	47,500
Bank Overdraft		1,50,000	Plant	1,72,500
Bills Payable		62,500	Building	9,10,000
Total		18,40,000	Total	18,40,000

The operations of the business was carried on till 30th September 2013. Sachin and Tuhin both withdrew in equal amounts, half the amount of profits made during the current period of 6 months after 10% p.a. had been written off on Building and Plant and 5% p.a. written off on

Furniture. During the current period of 6 months, Creditors were reduced by ₹50,000, Bills Payables by ₹11,500 and Bank Overdraft by ₹75,000. The Joint Life Policy was surrendered for ₹47,500 on 30th September 2013. Stock was valued at ₹3,17,000 and Debtors at ₹ 3,25,000. The other items remained the same as they were on 31st March 2013.
On 30th September 2013, the Firm sold its business to Swastik Ltd. Goodwill was estimated at ₹ 5,40,000 and the remaining Assets were valued on the basis of the Balance Sheet as on 30th September 2013. Swastik Ltd. paid the Purchase Consideration in Equity Shares of ₹ 10 each. You are required to prepare a Realisation Account and Capital Accounts of the Partners. **[12]**

(c) The following information has been obtained from the books of a lesee relating to the years 2010-11 to 2013-14 :

Payments to Landlord (after tax deducted @ 20% at Source) :

	2010-11	₹ 12,000
	2011-12	₹ 12,000
	2012-13	₹ 12,000
	2013-14	₹ 19,200
Short-working recovered :	2011-12	₹ 2,500
	2012-13	₹ 1,000
Short-working written-off :	2012-13	₹ 500

Balance of Short-working Account forward on April 1, 2010 ₹ 800 (which are in 2010-11). According to the terms of agreement short-working is recoverable within the next two years following the year in which short-working arises.
You are required to show the necessary accounts in the books of the lessee for the four years ended 31st March 2014. **[12]**

4. (Answer any two)

(a) Messers Lion & Co. are maintaining accounts on self-balancing system. On 31.3.2013 the general ledger disclosed the following balances:

Sales ledger adjustment account (Dr.) – ₹ 35,235; Purchases ledger adjustment account (Cr.) – ₹ 15,530.

On scrutinizing the ledgers, the following mistakes were noticed:

(i) A credit purchase of ₹ 4,300 has been credited to the sales ledger adjustment account. In the subsidiary books, the party's account shows a debit balance in the sales ledger and a credit balance in the purchases ledger.

(ii) ₹ 4,750 were due from Mr. X in the sales ledger as against ₹ 7,740 due to him for purchases made and entered in the purchase ledger.

Show the necessary journal entries. **[4]**

(b) Discuss the term "Self Balancing System". **[4]**

(c) Write up the Total Debtors Account recording the following transactions for the year ended 31st March, 2013 bringing down the balance on that date: Sales — ₹2,04,000; Purchases —₹1,40,000; Cash received from Debtors — ₹1,55,000; Cash Paid to Creditors — ₹1,37,000; Amount due to suppliers as shown by creditors ledger set off against amount due from the same party as shown by debtors ledger — ₹1,400; Bad Debts previously written off, now recovered— ₹1,300; Bad Debts written off — ₹3,100; Cash received in respect of debit balance in Creditors Account — ₹1,100; Returns Inward — ₹9,900; Bills Received — ₹40,000; Returns Outward — ₹1,500; Bills dishonoured — ₹2,500; Discounts Received — ₹3,000; Discounts Allowed — ₹2,500; Cash refunded to the debtors—₹ 500.

On 1st April, 2012 the debtors ledger balances were ₹ 18,300 (Dr.) and ₹ 200 (Cr.) and the Creditors Ledger balances were ₹ 16,900 (Cr.) and ₹ 1,100 (Dr.).
On 31st March, 2013 there were no credit balances in the debtors ledger except those outstanding on 1st April, 1995 and no debit balance in the creditors ledger. **[4]**

5. (Answer any two)

(a) (i) Patang Ltd. wants to re-classify its investments in accordance with AS-13. Decide on the amount of transfer, based on the following information:

A portion of Current Investments purchased for ₹ 60 lakhs, to be reclassified as Long Term Investments, as the Company has decided to retain them. The market value as on the date of Balance Sheet was ₹ 75 lakhs. **[2]**

(ii) Rupa Gadgets Ltd. sends electric ovens costing ₹ 1,300 each to their customers on Sale or Return basis. These are treated like actual sales and recorded through the Sales Day Book. Two months before the end of financial year it sent 150 ovens at an Invoice Price of ₹ 1,600 each, of which 20 ovens are accepted by customers at ₹ 1,400 each. Regarding the rest of the goods sent no further report is available. You are required to give the necessary Journal Entries at the end of the accounting year. **[6]**

(b) On 1st Jan 2013 Mr. A, for the temporary and mutual accommodation of himself and Mr. B, draws upon the latter a bill of exchange at 3 months for ₹2,000. On 4th Jan Mr. A discounts the bill @ 6% p.a. and hands half the proceeds to Mr. B. At maturity Mr. A remits the amount due to Mr. B who meets the bill. Pass Journal entries in the books of both the parties. **[8]**

(c) (i) Munni of Mumbai and Chunni of Chennai entered into a Joint Venture of purchase and sale of Jute and cotton .They agreed to share profits and losses in the ratio 3:2 and also to be entitled to an interest of 10% p.a. (on monthly basis) on Capital invested by each of them .

The following transactions took place :

On 1st July 2013, Chunni purchased 800 bales of Cotton @ ₹ 424 per bale, the brokerage being ₹ 12,800 and despatched to Chunni incurring ₹ 6,400 as freight and insurance.

On 15th July 2013 , Munni purchased 1,200 bales of Jute @ ₹ 192 per bale, Brokerage being ₹8 per bale and despached to Munni incurring ₹4,800 as freight and insurance.

On 1st August 2013, Chunni sold 300 bales of Cotton @ ₹ 576 per bale, brokerfage being ₹ 16 per bale.
On 1st September 2013, Chunni sold 450 bales of Cotton @ ₹ 580 per bale, brokerage being ₹ 12 per bale.
On 15th August 2013, Munni sold 400 bales of Jute @ ₹ 2,800 per bale, brokerage being ₹ 8 per bale and on 15th September 2013, sold 700 bales of Jute @ ₹ 292 per bale brokerage being ₹4 per bale. Each partner took unsold stock in his hand at cost plus $12\frac{1}{2}$ % on 30th September 2013, on which date venture was closed.

Compute the value of unsold stock held by Munni and that of held by Chunni. **[3+3=6]**

(ii) State the meaning of " Insolvency of Drawee (Acceptor)" in relation to a bill of exchange. **[2]**

6. (Answer any two)

(a) List the items to be deducted and to be excluded while computing the Contract Cost as per AS – 7. **[4]**

(b) While finalising the Accounts for the year 2012-13 it was realised that XY Ltd. stands to receive ₹ 10 lakh from its customers in respect of sales made in 2012-13 due to price revision granted by the Government.
You are required to advise the Company regarding the treatment of the amount in the Accounts for the year quoting relevant Accounting Standard. **[4]**

(c) Discuss the method of accounting followed by an Educational Institution. **[4]**

7. (Answer any two)

(a) **(i)** How will you disclose the following Ledger balances in the Final accounts of Ramanuja Bank?

Particulars	₹ in Lakhs
Current Accounts	1,400
Saving Accounts	1,000
Fixed Deposits	1,400
Cash Credits	1,200
Term Loans	1,000
Bills Discounted & Purchased	1,600

Additional information:

Included in the Current Accounts Ledger are accounts overdrawn to the extent of ₹ 500 Lakhs.
One of the Cash Credit account of ₹ 20 Lakhs (including interest ₹ 2 Lakhs) is doubtful.
60% of Term Loans are secured by Government Guarantees, 20% of Cash Credits are unsecured, other portion is secured by Tangible Assets. **[5]**

(ii) List the advantages of adopting Optmised Depreciated Replacement Cost method. **[3]**

(b) **(i)** The Life Assuranc Fund of a Life Insurance Company was ₹86,48,000 on 1.1.2013. The interim bonus paid during the inter-valuation period was ₹1,48,000. The periodical actuarial valuation determined the net liability at ₹74,25,000. Surplus brought forward from the previous valuation was ₹8,50,000. The directors of the company proposed to carry forward ₹9,31,000 and to divide the balance between the shareholders and policyholders.

Show the Valuations Balance Sheet; the net profit for the valuation period; and the distributions of the surplus. **[6]**

(ii) State the meaning of "Double Insurance". **[2]**

(c) The Trial Balance of Quick Electric Supply Ltd for the year ended 31st March 2014 is as below:

Particulars	Dr. (₹ '000)	Cr. (₹ '000)
Share Capital: Equity Shares of ₹ 10 each		125,00
14% Preference Shares of ₹ 100 each		37,50
Patents and Trademarks	626	
15% Debentures		61,75
16% Term Loan		38,25
Land (Additions during the year ₹ 512.50)	31,12.5	
Building (Additions during the year ₹ 12,70)	87,83.5	
Plant & Machinery	142,64.5	
Mains	11,31	
Meters	787.5	
Electrical Instrument	382.5	
Office Furniture	612.5	
Capital Reserve		12,55
Contingency Reserves		30,07.5
Transformers	41,10	
Net Revenue Account		13,37.5
Stock in Hand	30,12.5	
Sundry Debtors	15,61.5	
Contingency Reserve Investments	30,02.5	
Cash & Bank	818.5	
Public Lamps	760	
Depreciation Fund		64,54
Sundry Creditors		16,36
Proposed Dividend		30,25
Total	429,65	429,65

During 2013-2014, ₹ ('000) 25,00 of 14% Preference Shares were redeemed at a Premium of 10% out of proceeds of fresh issue of Equity Shares of necessary amounts at Premium of 10%.

From the above, prepare the Balance Sheet as on 31st March 2014, as per the Revised Schedule VI. **[8]**