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]**

(a) Rectify the following errors by passing necessary journal entries:

- **₹ 1,500 received from Praveen against debts previously written off as bad debts have been credited to his personal account.**
- **A cheque received from Amar, a debtor, for ₹ 2,000 was directly received by the proprietor who deposited it into his personal bank account.**

Answer:

Books of……………………………

Journal

Date	Particulars	L.F.	Dr. Amount (₹)	Cr. Amount (₹)
	(i) Praveen A/c (Debtors A/c) ...., ... Dr. To Bad Debts Recovery A/c [Praveen A/c wrongly credited for amount received against bad debts written off, now rectified]		1,500	 1,500
	(ii) Drawings A/c ....Dr. To Amar A/c [Debtors] [Cheque from a Debtor directly received and deposited into personal bank a/c by proprietor, now adjusted]		2,000	 2,000

(b) 'A' and 'B' are Partners sharing Profits and Losses in the ratio of 3:1. Their Capitals were ₹ 3,00,000 and ₹ 2,00,000 respectively. As from 1st April 2014, it was agreed to change the Profit Sharing Ratio to 3:2. According to the Partnership Deed, Goodwill should be valued at two years' purchase of the average of three years' profits. The profits of the previous three years ending 31st March were - 2012 – ₹ 1,50,000, 2013 – ₹ 2,00,000 and 2014 – ₹ 2,50,000.
Pass the necessary Journal Entry to give effect to the above arrangement in the Capital Accounts of the partners.

Answer:

Goodwill = $\frac{(1,50,000+2,00,000+2,50,000)}{3\text{ years}}$ x 2 years purchase = ₹ 4,00,000.

Journal Entries

S. No.	Particulars	Debit(₹)	Credit (₹)
1.	Goodwill A/c Dr. To A's Capital A/c To B's Capital A/c (Being Goodwill credited to Partners' Capital A/c in Old Profit Sharing Ratio)	4,00,000	 3,00,000 1,00,000

2.	A's Capital A/c Dr. B's Capital A/c Dr. To Goodwill A/c (Being Goodwill written off to Partners' Capital A/c in New Profit Sharing Ratio)	2,40,000 1,60,000	 4,00,000

(c) Following Memorandum Royalty Statement are given with missing figures.

Year	Royalty	Min. Rent	Short working	Recoupment	Short working carried forward	Trf to P&L A/c	Payment to landlord
2010	**-**	**10,000**	**?**	**-**	**?**	**-**	**10,000**
2011	**3,300**	**10,000**	**?**	**-**	**16,700**	**-**	**10,000**
2012	**11,100**	**10,000**	**-**	**1,100**	**15,600**	**-**	**?**

Complete this above statement considering that excess of Minimum Rent over royalties are recoverable out of royalties of nest five years.

Answer:

Computation of Memorandum Statement

Year	Royalty	Min. Rent	Short working	Recoupment	Short working carried forward	Trf to P&L A/c	Payment to landlord
2010	-	10,000	10,000	-	10,000	-	10,000
2011	3,300	10,000	6,700	-	16,700	-	10,000
2012	11,100	10,000	-	1,100	15,600	-	10,000

(d) A Company sold 25% of the goods on Cash Basis and the balance on Credit Basis. Debtors are allowed 2 months credit and their balance as on 31st March (Closing Balance) is ₹ 1,40,000. Assume that the Sale is uniform throughout the year. Calculate the Total Sales of the Company for the year ended 31st March.

Answer:

1. Closing Debtors as on 31st March	₹ 1,40,000 represents 2 months Sales
2. Hence, Credit Sales for the year (12 months)= $\frac{₹1,40,000}{2\ \text{months}}$ x12 months	₹ 8,40,000 = 75% of Total Sales
3. Cash Sales - 25% of Total Sales – ₹ 8,40,000 x $\frac{25\%}{75\%}$	₹ 2,80,000
4. Hence, Total Sales of the Company for the year = ₹ 8,40,000 + ₹ 2,80,000	₹ 11,20,000

(e) Gupta Traders keep their Ledger on self-balancing system, and provide the following data for the period just ended.

Particulars	₹	Particulars	₹
Opening Balance of Debtors	**1,37,250**	**Cash Received from customers**	**76,800**
Credit Sales	**71,700**	**Discount Received**	**2,010**
Returns Inward	**1,200**	**Returns Outward**	**1,800**

Prepare General Ledger Adjustment A/c in the Sales Ledger of Gupta Traders.

Answer:

Note: Returns Outwards (Purchase Returns) and Discount Received will not affect Debtors related transactions and hence, no entry in the General Ledger Adjustment Account in Sales Ledger.

General Ledger Adjustment Account (in Sales Ledger)

Particulars	₹	Particulars	₹
To Debtors Ledger Adjt A/c (in Gen. Ledger) -Return Inwards -Cash Received To Balance c/d (balancing figure)	 1,200 76,800 1,30,950	By Balance b/d (Opening Balance of Debtors) By Debtors Ledger Adjt A/c (in General Ledger) - Credit Sales	1,37,250 71,700
	2,08,950		2,08,950

(f) From the following data, show degree of completion as would appear in the books of a contractor following Accounting Standard – 7:

Particulars	(₹ in lakhs)
Contract Price	**960**
Cost incurred to date	**600**
Estimated cost to complete	**400**

Answer:

Calculation of Total Estimated Cost

Particulars	(₹ in lakhs)
Cost to incurred to date	600
Estimated of cost to complete	400
Estimated Total Cost	1,000

Degree of completion: (600/1,000) x 100 = 60%

(g) On 12th June, 2013, a fire occurred in the premises of N.R. Patel, a paper merchant. Most of the stocks were destroyed, cost of stock salvaged being ₹11,200. In addition, some stock was salvaged in a damaged condition and its value in that condition was agreed at ₹ 10,400. The Estimated Value of stock at the date of fire was ₹ 80,000. On the basis of his accounts, it appears that he earns on an average a gross profit of 25% on sales. Patel has insured his stock for ₹ 60,000. Compute the amount of claim

Answer:

Statement of Claim

	Particulars	Amount (₹)
A	Estimated Value of Stock as at date of fire	80,000
B	Value of Salvaged Stock and damaged stock (₹ 11,200 + ₹10,400)	21,600
C	Estimated Value of Stock lost by fire (A – B)	58,400
D	Amount of claim by applying Average Clause: $\text{Loss Suffered} \times \frac{\text{Sum Insured}}{\text{Estimated value of Stock}} = 58{,}400 \times \frac{60{,}000}{80{,}000}$	43,800

Note: Amount of policy is less than the estimated value of stock. So, Average clause is applied.

(h) Dadaji & Co. records through its Sales Day Book goods sent for approval to a few customers. On 31 March, 2014 when it closed its accounts its Debtors and Stock in hand were ₹ 1,50,000 and ₹ 75,000 respectively. The Debtors included ₹ 6,000 due from Raja and ₹ 2,000 from Praja for goods sent for approval to them at a profit of 33-$\frac{1}{3}$% on cost. But no intimation was received from them till 31.3.2014.

Show how these items will appear in the Balance Sheet on 31 March, 2014.

Answer:

Balance Sheet as on 31.03.2014

Liabilities	Amount (₹)	Amount (₹)	Assets	Amount (₹)	Amount (₹)
			Sundry Debtors [1,50,000 - 8,000]		1,42,000
			Stock	75,000	
			Add : Stock lying with Customers on Sale or Return	6,000	
					81,000

(i) As on 31.12.13, the books of the Hero Bank include, among others, the following balances-

Particulars	₹
Rebate on Bills discounted (01.01.2013)	**3,20,000**
Discount Received	**46,00,000**
Bills Discounted and Purchased	**3,15,47,000**

Throughout 2013, the Bank's Rate for Discounting has been 18%. On investigation and analysis, the Average due date for the Bills discounted and purchased is calculated on 15.02.2014 and that for Bills for collection as 15.01.2014.
Compute the Rebate pertaining to the period after Balance Sheet Date.

Answer:

Particulars	Result
(a) Period = No. of days from the Balance Sheet Date 31.12.13 to Average Due date i.e. 15.02.2014 = 31+15	46 days
(b) Rebate Amount [Bills Discounted & purchase ₹ 3,15,47,000 x discount Rate 18% x 46 /365]	₹ 7,15,642

(j) Mention any two activities requiring Licence under the Electricity Act, 2003.
Answer:
Licence [Sec 12] : No person shall – (i) Transmit Electricity ,(ii) Distribute Electricity or (iii) Under take trading in electricity , unless he is authorized to do so by licence issued u/s 14 or is exempted u/s 13.
[Student may answer any 2 above the point]

2. (Answer any two) [2x4]

(a) Raja makes up his annual accounts to 31st December every year. He was unable to take stock of physical inventory till 9th January 2014 on which date the physical stock at cost was valued at ₹ 75,200.
You are required to ascertain the value of stock at cost on 31st Dec. 2013, from the following information regarding the period from 1st January 2014 to 9th January 2014:

(i) Purchases of goods amounted to ₹ 25,600 of which goods worth ₹ 4,700 had been received on 28.12.2013 and goods worth ₹ 5,900 had been received on 12.1.2014.

(ii) Sales of goods amounted to ₹ 38,400 of which goods of a sale value of ₹ 3,600 had not been delivered at the time of verification and goods of a sale value of ₹ 6,000 had been delivered on 29.12.2013.

(iii) A sub-total of ₹ 12,000 on one of the stock sheets had been carried to the summary of stock sheet as ₹ 21,000.

(iv) In respect of goods costing ₹ 4,000 received prior to 31st December 2013, invoices had not been received up to the date of verification of stock.

(v) The rate of gross profit was 20% on the cost price. [4]

Answer:

Statement showing the value of Physical Stock at cost on 31st Dec, 2013

Particulars	₹	₹	₹
Value of closing stock on 9th January 2014 :			75,200
Less: Goods purchased and received between 1.1.2014 and 9.1.2014;		25,600	
Less: Goods received on 28.12.2013	4,700		
Goods received on 12.1.2014	5,900	10,600	15,000
			60,200
Add : Cost of goods sold and delivered between 1.1.2014 and 9.1.2014		38,400	
Less: Goods undelivered	3,600		
Goods delivered on 29.12.2013	6,000	9,600	
		28,800	
Less : Gross profit (@ 20% on cost i.e. 1/6th of sales)		4,800	24,000
			84,200
Less: Stock sheet wrongly carried forward by (21,000 -12,000)			
Value of stock as on 31.12.2013			9,000
			75,200

Note: There will be no adjustment for item (iv)

(b) ABC Ltd. Issue 1,00,000 equity shares of ₹ 10 each (fully paid up) in consideration for supply of a Machinery by MNP Ltd. The shares exchanged for machinery are quoted on National Stock Exchange (NSE) at ₹25 per share, at the time of transaction. In the absence of fair market value of the machinery acquired, how the value of machinery would be recorded in the books of company. [4]

Answer:

As per this statement, fixed asset acquired in exchange for shares or other securities in the enterprise should be recorded at the fair market value of the asset acquired or the fair market value of the securities issued, whichever is more clearly evident. Since, the market value of the shares exchanged for the asset is more clearly evident, the company should record the value of machinery at ₹ 25,00,000 (i.e. 1,00,000 shares x ₹ 25 per share being the market price).

Journal Entry

Date	Particulars	Amount (₹)	Amount (₹)
	Machinery A/c Dr	25,00,000	
	To Share capital A/c		10,00,000
	To Securities Premium A/c		15,00,000
	(being machinery recorded at the fair market value of the securities issued in consideration for machinery acquired)		

(c) Distinguish between Capital Expenditure and Revenue Expenditure. [4]

Answer:

Differences between Capital Expenditure and Revenue Expenditure

Capital Expenditure	Revenue Expenditure
The economic benefits of Capital Expenditures are enjoyed for more than one accounting period.	The economic benefits of Revenue Expenditures are enjoyed within a particular accounting period.
Capital Expenditures are of non-recurring in nature. Capital Expenditures are of non-recurring in nature.	Revenue Expenditures are of recurring in nature.
All Capital Expenditures eventually become Revenue Expenditures like depreciation	Revenue Expenditures are not generally capital expenditures.
Capital Expenditures are not matched with Capital Receipts.	All Revenue Expenditures are matched with Revenue Receipts.

3. (Answer any two) [2x12]

(a) (i) Water Industries Ltd. gives the following estimates of cash flows relating to fixed asset on 31-12-2012. The discount rate is 15%.

Year	**Cash flow(₹ in Lakhs)**
2013	**2,000**
2014	**3,000**
2015	**3,000**
2016	**4,000**
2017	**2,000**
Residual value at the end of 2017	**500**

Fixed Asset purchased on 01-01-2010 for ₹20,000 lakhs
Useful life 8 years
Residual value estimated ₹ 500 lakhs at the end of 8 years. Net selling price ₹ 10,000 lakhs.
Calculate on 31-12-2012.

A. Value in use on 31-12-2012.
B. Carrying Amount at the end of 31-12-2012
C. Recoverable amount on 31-12-2012.
D. Impairment loss to be recognized for the year ended 31-12-2012.
E. Revised carrying amount.
F. Depreciation charge for 2013. [2+2+1+1+1+1]

Answer:

A. Computation of value in use

(₹ in Lakhs)

Year	**Cash flow**	**Discount as per 15%**	**Discount cash flow**
2013	2,000	0.870	1,740
2014	3,000	0.756	2,268
2015	3,000	0.658	1,974
2016	4,000	0.572	2,288
2017	2,000 + 500 (residual value)	0.497	1,243
			9,513

Value in use is ₹ 9,513 lakhs

B. Calculation of Carrying Amount

Particulars	Amount (₹ in Lakhs)
Original cost	20,000
Less: Depreciation for 3 years [(20,000 - 500) × 3/8] (for 2010, 2011 & 2012 on straight-line basis)	7,313
Carrying amount on 31 -12-2005	12,687

Carrying Amount ₹12,687

C. Calculation of Recoverable Amount

Particulars	Amount (₹ in Lakhs)
Net selling price (as given)	10,000
Value in use	9,513
[Higher of this two]	
Recoverable Amount 31-12-2005	10,000

Recoverable Amount ₹10,000

D. Calculation of Impairment Loss

Particulars	Amount (₹ in Lakhs)
Carrying Amount	12,687
Less: Recoverable Amount	10,000
Impairment Loss	2,687

E. Calculation of Revised Carrying Amount

Particulars	Amount (₹ in Lakhs)
Carrying Amount	12,687
Less: Impairment Loss	2,687
Impairment Loss	10,000

F. Depreciation charge for 2013

Particulars	Amount (₹ in Lakhs)
Carrying Amount	10,000
Less: Residual Income	500
	9,500
Depreciation for (9,500 / 5)	1,900

(ii) Distinguish between Profit and Loss Account and Income & Expenditure Account [4]

Answer:

Profit and Loss Account	Income & Expenditure Account
It is prepared by business undertaking.	It is prepared by non-trading organizations.
The credit balance of Profit and Loss A/c is known as "net profit" and added to opening capital.	Credit balance of Income and Expenditure A/c is known as excess of income over expenditure or surplus and added to opening capital fund.

The debit balance of this Profit and Loss A/c is known as "net loss" and deducted from opening capital.	Debit balance of this Income and Expenditure A/c is known as "excess of expenditure over income' or deficit and deducted from opening capital fund.
To, check correctness of accounts trial balance is prepared before preparing this account.	To check correctness of accounts, receipts and payments account is prepared before preparing this account.

(b)(i) From the following, you are required to calculate the Net Cash Flow from the Operating Activities by Indirect Method:

Particulars	31 March 2013 ₹	31 March 2014 ₹
Balance of Profit & Loss A/c	**60,000**	**65,000**
Debtors	**87,000**	**40,000**
Bills Receivable	**62,000**	**1,03,000**
General Reserve	**2,02,000**	**2,37,000**
Salary Outstanding	**30,000**	**12,000**
Wages Prepaid	**5,000**	**7,000**
Goodwill	**80,000**	**70,000**

[6]

Answer:

Calculation of Net Cash Flow from Operating Activities (under Indirect Method) of …………….for the year that ended on 31 March 2014

Particulars	₹	₹
Net Profit for the Year (after Appropriation) (₹ 65,000 - ₹ 60,000)		5,000
Add: Appropriation made during the year:		
Transfer to General Reserve	35,000	35,000
Net Profit before appropriation		40,000
Add: Adjustment for Non-current & Non-operating Items charged to		
Profit & Loss A/c:		10,000
Goodwill written off		50,000
Operating Profit before Working Capital Changes	Nil	
Add: Increase in Operating Current Liabilities		
Decrease in Operating Current Assets:	47,000	47,000
Debtors		97,000
Less: Increase in Operating Current assets:	41,000	
Bills Receivable	2,000	
Wages Prepaid		
Decrease in Operating Current Liabilities:	18,000	
Salary outstanding		61,000
Net Cash Flow from Operating Activities		36,000

(ii) X Ltd has three departments A, B and C. From the particulars given below, compute The Departmental results

Particulars	A(₹)	B(₹)	C(₹)
Opening Stock	**24,000**	**36,000**	**12,000**
Purchases	**1,46,000**	**1,24,000**	**48,000**
Actual Sales	**1,72,500**	**1,59,400**	**74,600**

Gross Profit on Normal selling price	**20%**	**25%**	$33\frac{1}{3}\%$

During the year certain items were sold at discount and these discounts were reflected in the value of sales shown above. The items sold at discount were:

Particulars	A(₹)	B(₹)	C(₹)
Sales at Normal Price	**10,000**	**3,000**	**1,000**
Purchases	**7,500**	**2,400**	**600**

[4]

Answer:

Calculation of Departmental Results (Actual Gross Profit)

Particulars	A(₹)	B(₹)	C(₹)
Actual sales	1,72,500	1,59,400	74,600
Add back: Discount (Normal price – Actual Price)	2,500	600	400
Normal Sales	1,75,000	1,60,000	75,000
Gross profit % on Normal sales	20%	25%	$33\frac{1}{3}\%$
Normal Gross Profit	35,000	40,000	25,000
Less: Discount	(2,500)	(600)	(400)
Actual Gross Profit	32,500	39,600	24,600

(iii) Mention any two features of Accounting for Independent Branches. [2]

Answer:

A. **Double Entry:** Branch maintains its entire books of account under double entry system.

B. **Control Account:** In its books, the Branch maintains a Head office Account to record all transactions that take place between HO and Branch. Similarly, the HO maintains a Branch Account to record these transactions.

(c) The firm of Kapil and Dev has four partners and as on 31st March, 2013, its Balance Sheet stood as follows:

Balance Sheet as at 31st march, 2013

Liabilities	₹	₹	Assets	₹
Capital A/cs:			**Land**	**50,000**
F. Kapil	**2,00,000**		**Building**	**2,50,000**
S. kapil	**2,00,000**		**Office equipment**	**1,25,000**
R. Dev	**1,00,000**	**5,00,000**	**Computers**	**70,000**
Current A/cs:			**Debtors**	**4,00,000**
F. Kapil	**50,000**		**Stocks**	**3,00,000**
S. kapil	**1,50,000**		**Cash at Bank**	**75,000**
R. Dev	**1,10,000**	**3,10,000**	**Other Current assets**	**22,600**
Loan form NBFC		**5,00,000**	**Current A/c:**	
Current Liabilities		**70,000**	**B. Dev**	**87,400**
		13,80,000		**13,80,000**

The partners have been sharing profits and losses in the ratio of 4: 4: 1: 1. It has been agreed to dissolve the firm on 1.4.2013 on the basis of the following understanding:

(a) The following assets are to be adjusted to the extent indicated with respect to the book values : Land—200%; Building—120%; Computers—70%; Debtors—95%; Stocks—90%

(b) In the case of the loan, the lenders are to be paid at their insistence a prepayment premium of 1%.

(c) B.Dev is insolvent and no amount is recoverable from him. His father, R. Dev, however, agrees to bear 50% of his deficiency. The balance of the deficiency is agreed to be

apportioned according to law.
Assuming that the realization of the assets and discharge of liabilities is carried out immediately, show the Cash Account, Realization Account and the Partners' Accounts.
[12]

Answer:

Realization Account

Dr. **Cr.**

Particulars	Amount ₹	Amount ₹	Particulars	Amount ₹	Amount ₹
To Land A/c		50,000	By Current Liabilities A/c		70,000
To Building A/c		2,50,000	By Loan from NBFC A/c		5,00,000
To Office Equipments A/c		1,25,000	By Bank A/c :		
To Computers A/c		70,000	Land [200%]	1,00,000	
To Debtors A/c		4,00,000	Building [120%]	3,00,000	
To Stocks A/c		3,00,000	Office Equipment [100%]	1,25,000	
To Other Current Assets A/c		22,600	Computers [70%]	49,000	
To Cash A/c :			Debtors [95%]	3,80,000	
Current Liabilities		70,000	Stock [90%]	2,70,000	
Loan from NBFC [5,00,000 + 1% thereof]		5,05,000	Other Current Assets [100%]	22,600	12,46,600
To Capital A/cs [Profit on Realization]					
F. Kapil	9,600				
S. Kapil	9,600				
R. Dev	2,400				
B. Dev	2,400	24,000			
		18,16,600			18,16,600

Partners Capital Accounts

Dr. **Cr.**

Particulars	F. Kapil ₹	S. Kapil ₹	R. Dev ₹	B. Dev ₹	Particulars	F. Kapil ₹	S. Kapil ₹	R. Dev ₹	B. Dev ₹
To Current A/c				87,400	By Balance b/d	2,00,000	2,00,000	1,00,000	
To B. Dev's Cap. A/c [50% of deficiency] "			42,500		By Current A/c	50,000	1,50,000	1,10,000	
To B.Dev's Cap. A/c (Contra)	17,000	17,000	8,500		By Realization A/c (Profit)	9,600	9,600	2,400	2,400
To Bank A/c [Final Payments]	2,42,600	3,42,600	1,61,400	-	By R.Dev's Cap. A/c [50% of deficiency transferred]				42,500
					By F.Kapil's Cap. A/c				17,000
					By S.Kapil's Cap. A/c				17,000
					By R.Dev's Cap. A/c [Remaining deficiency as 2:2:1]				8,500
	2,59,600	3,59,600	2,12,400	87,400		2,59,600	3,59,600	2,12,400	87,400

Cash Book (Bank Column)

Dr. **Cr.**

Particulars	**Amount ₹**	**Particulars**	**Amount ₹**
To Balance b/d To Realization A/c	75,000 12,46,600	By Realization A/c By F. Kapil's Capital A/c By S. Kapil's Capital A/c By R. Dev's Capital A/c	5,75,000 2,42,600 3,42,600 1,61,400
	13,21,600		13,21,600

4 (Answer any two) **[4x2]**

(a) A firm keeps its sold and bought ledgers on self-balancing system. From the following particulars, prepare the adjustment accounts in the sold and bought ledgers.
Trade Debtors on 1st April, 2013—₹62,000; Trade Creditors on 1st April, 2013—₹25,000; Credit Purchases— ₹ 1,03,000; Credit Sales—₹ 1,34,000; Cash received from trade debtors—₹ 78,000; Returns Inward—₹ 3,000; Acceptances given—₹40,000; Returns Outward—₹2,500; Acceptances from trade debtors dishonoured—₹5,000; Discount allowed to trade debtors—₹1,000; Bad Debts written off—₹2,000; Bad Debts written off in the previous years now recovered—₹ 5,000; Trade Creditors on 31st March, 2014 — ₹10,500; Trade Debtors on 31st March, 2014—₹1,17,000. **[4]**

Answer:

In Sold Ledger of
General Ledger Adjustment Account

Dr. **Cr.**

Date	**Particulars**	**Amount (₹)**	**Date**	**Particulars**	**Amount (₹)**
31.3.14	To Sold Ledger Adjustment A/c : - Cash Received	78,000	1.4.13	By Balance b/d	62,000
	- Returns Inward	3,000	31.3.14	By Sold Ledger Adjustment A/c :	
	- Discount Allowed	1,000		- Credit Sales	1,34,000
	- Bad Debts	2,000		- Acceptances from Debtors Dishonoured	5,000
31.3.14	To Balance c/d	1,17,000			
		2,01,000			2,01,000

In Bought Ledger of
General Ledger Adjustment Account

Dr. **Cr.**

Date	**Particulars**	**Amount ₹**	**Date**	**Particulars**	**Amount ₹**
1.4.13 1.3.14	To Balance b/d To Bought Ledger Adjustment A/c : Purchases (Credit)	25,000 1,03,000	31.3.14	By Bought Ledger Adjustment A/c : - Acceptance given - Returns Outwards - Cash [Note 1] " Balance c/d	 40,000 2,500 75,000 10,500
		1,28,000			1,28,000

Note 1: Cash paid to creditors is not given but the closing balance is given. So cash paid = Balancing Amount = ₹ 75,000.

(b) Distinction between Self Balancing System and Sectional Balancing System. **[4]**

Answer:

Self Balancing Systems	Sectional Balancing Systems
Under it, all three ledgers namely the Sales Ledger, the purchase ledger and the General Ledger are made separately self – balancing.	Under it, only the General Ledger can made self- balancing.
Separate Trial Balance can be prepared at the end of each separate ledger.	The Trial balance may be prepared only in the General Ledger.
Here adjustment accounts are prepared on complete double entry principle.	Here lists of debtors or creditors are prepared at the end of Debtors and Creditors Ledger.
It is actually an extension of sectional balancing systems.	It is not an extension of sectional balancing systems.

(c) Prepare the General Ledger Adjustment Accounts as will appear in Debtors Ledger from the information given below:

Particulars	Dr. (₹)	Cr.(₹)
Debtors' Ledger	**47,200**	**240**

Transactions for the year ended 31.3.2014:

Total Sales	**1,20,100**
Cash Sales	**8,100**
Received from Debtors (in full settlement of ₹59,000)	**58,200**
Bills Accepted by customers	**20,100**
Bills Receivable Dishonoured	**1,500**
Bills Receivable endorsed to creditors	**4,000**
Endorsed bills Dishonoured	**1,000**
Bad Debts	**2,200**
Provision for Doubtful debts	**550**
Transfer from Creditors Ledger to Debtors Ledger	**1,900**

Balance on 31.03.2014

Debtors' Ledger (Cr.)	**₹380**

[4]

Answer:

In Debtors Ledger
General Ledger Adjustment Account

Dr. **Cr.**

Date	Particulars	Amount (₹)	Date	Particulars	Amount (₹)
1.4.13	To Balance b/f	240	1.4.13	By Balance b/f	47,200
31.3.14	To Debtors Ledger Adjustment A/c :		31.3.14	By Debtors Ledger Adjustment A/c :	
	- Cash (Received)	58,200		- Sales (Credit)	1,12,000
	- Bills Receivable	20,100		- Bills Receivable (Dishonoured)	1,500
	- Discount Allowed	800		- Endorsed bill Dishonoured	1,000

	- Bad Debts	2,200			
	- Transfer from Purchase Ledger	1,900			
31.3.14	" Balance c/f (Balancing figure)	80,540	31.3.14	By Balance c/f	380
		1,62,080			1,62,080

Note: Self-balancing entry is not required for Provision for Bad Debts.

5 (Answer any two) [4x2]

(a) Excellent Construction Company Limited undertook a contract to construct a building for ₹3 crores on 1st September, 2012. On 31st March 2013, the company found that it had already spent ₹ 1 crore 80 Lakhs on the construction. Prudent estimates of additional cost of completion was ₹ 1 Crore 40 lakhs . Calculate what amount should be charged, to revenue in the final accounts for the year ended on 31st March 2013, as per the provisions of AS -7? [4]

Answer:

Estimated Total contract Costs = Costs till date + further costs = 180+140 = ₹320 lakhs

Percentage of completion = Costs incurred till date / Estimated Total costs = 180/320 =56.25%

Total Expected Loss to be provided for = Contract Price - Estimated Total Costs
= ₹(300 – 320) = ₹20 Lakhs

(i)	Contract Revenue = 56.25% of ₹300 Lakhs	= ₹168.75 Lakhs
(ii)	Less: Contract Costs	= ₹180.00 Lakhs
(iii)	Loss on Contract [B - A]	= ₹ 11.25 Lakhs
(iv)	Less: Further Provision required in respect of expected loss	= ₹8.75 Lakhs (Bal. Figure)
(v)	Expected Loss recognized as per Para 35	= ₹20.00 Lakhs

Disclosures As Per As – 7

Particulars	₹ Lakhs
Contract Revenue	168.75
Contract Expenses Charged	180.00
Provision for Future Losses to be Charged	8.75

(b) Write a note on Segment Reporting in the perspective of Telecommunication Sector. [4]

Answer:

Segmental Reporting

As with other industries that do not follow segmented reporting based on the various products offered, cellular companies treat prepaid and postpaid services as the same product offered, calling them 'telecom services'. Therefore, no segmented results are provided to distinguish between prepaid and post-paid services by GSM mobile providers. Integrated telecom players like Bharti Tele ventures Limited have classified their business into four segments - Mobile, Broadband, Long Distance, Enterprise and Others. For purposes of geographical segmentation, Bharti discloses results for the Indian region as one geographical area and rest of the world as another geographical area VSNL has revised its reportable segments into two categories. For the year ended 31st March 2005, it revised its segments to consider "Telephony and Related Services", including international and national voice and data services and Internet services. "Other Services" include transponder lease, television up-linking, gateway packet switching services and

video conferencing facilities. VSNL has identified geographical segments as India (58%), USA (11%), Saudi Arabia (3%), UAE (8%) and others.
In case of geographical segmentation, Bharti Tele venture's disclosure is limited to India (90%) and the rest of the world (country-wise details are not relevant, as they amount to less than 90%).

(c) On 25th September, 2013, Planet Advertising Limited obtained advertisement rights to World Cup Hockey Tournament to be held in Dec, 2013 for ₹520 lakhs.
They furnish the following information:

- **The company obtained the advertisements for 70% of available time for ₹700 lakhs by 30th September, 2013.**
- **For the balance time they got bookings in October, 2013 for ₹ 240 lakhs.**
- **All the advertisers paid the full amount at the time of booking the advertisements.**
- **40% of the advertisements appeared before the public in Nov. 2013 and balance 60% appeared in the month of December, 2013.**

You are required to calculate the amount of profit/loss to be recognized for the month November and December, 2013 as per Accounting Standard-9. [4]

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

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

Calculation of Total Profit

Particulars	₹ in lakhs
Advertisement for 70% of available time obtained by 30th September, 2013	700
Advertisement for 30% of available time obtained in by October, 2013	240
Total	940
Less: Cost of advertisement rights	(520)
Profit	420

The profit amounting ₹420 lakhs should be apportioned in the ratio of 40:60 for the months of November and December, 2013. Thus, the company should recognize ₹168 lakhs (i.e. ₹ 420 lakhs × 40%) in November, 2013 and rest ₹252 lakhs (i.e. ₹420 lakhs × 60%) in December, 2013.

6 (Answer any two) [8 x 2]
(a) A fire occurred in the premise of ME X-Ray & Co. on 15.5.14 causing destruction of large part of the stock. The firm had taken a fire insurance policy for ₹ 5,47,200 to cover the loss of stock by fire. From the records saved the following particulars were ascertained:

	₹		₹
Purchases for the year 2013	**30,01,600**	**Stock on 31st December 2013**	**7,74,400**
Sales for the year 2013	**37,12,000**	**Wages paid during 2013**	**3,20,000**
Purchases from 1st January 2014 to 15th May 2014	**5,82,400**	**Wages paid during 1st January 2014 to 15th May 2014**	**57,600**
Sales from 1st January 2014 to 15th May 2014	**7,68,000**	**Stock Salvaged was**	**89,600**
Stocks on 1st January 2013	**4,60,800**		

In 2013 some goods were destroyed by fire. The cost of such goods was ₹ 1,60,000. These goods were not covered by any insurance policy. In valuing the stock on 31st December

2014 stocks costing ₹ 34,000 were found to be poor selling line and ₹ 6,000 in relation to such stock were written off. A portion of these goods (original cost ₹ 5,000) were sold in April 2014 at a loss of ₹ 1,000 on original cost. The remainder of this stock was now estimated to be worth the original cost. Subject to the above exception, gross profit has remained at a uniform rate throughout. You are required to ascertain the insurance claim available to the firm. [8]

Answer:

In the Books of ME X-Ray & Co
Memorandum Trading Account
for the period from 1st January to 15th May 2014

Particulars	Normal Items ₹	Abnormal Items ₹	Particulars	Normal Items ₹	Abnormal Items ₹
To Opening Stock	7,46,400	34,000	By Sales	7,64,000[1]	4,000
" Purchase	5,82,400	—	" Loss (bal.fig.)	—	1,000
" Wages	57,600	—	"Closing stock (bal.fig.)	8,01,463	29,000
" Gross Profit (23.4375% on ₹ 7,64,000)	1,79,063	—			
	15,65,463	34,000		15,65,463	34,000

Amount of Claim = Value of Stock - Stock Salvaged
= (₹ 8,01,463 + ₹ 29,000) - ₹ 89,600 = ₹ 7,40,863.

Since, policy amount is less than the amount of Claim, Average clause to be applied, i.e.,

$$\text{Net Claim} = \text{Loss of Stock} \times \frac{\text{Policy Value}}{\text{Stock destroyed at the date of fire}}$$

$$= ₹\ 7{,}40{,}863 \times \frac{₹5{,}47{,}200}{₹8{,}30{,}463} = ₹\ 4{,}88{,}162$$

Workings:

1. Sales ₹7,68,000 inclusive of ₹ 4,000 (i.e., ₹ 5,000 - ₹ 1,000) treated as abnormal sales.

2

Trading Account for the year ended 31st Dec. 2013

Dr. **Cr.**

Particulars	Amount (₹)	Particulars	Amount (₹)
To Opening Stock	4,60,800	By Sales	37,12,000
" Purchases	30,01,600	"Abnormal Loss (not covered, by Ins.)	1,60,000
" Wages	3,20,000	" Closing Stock:	
Gross Profit	8,70,000	" Normal Item (7,74,400-28,000)	7,46,400
		Abnormal Items	34,000
	46,52,400		46,52,400

$$\text{Percentage of G.P. on sales} = \frac{8{,}70{,}000}{₹37{,}12{,}000} = 23.4375\%$$

(b) (i) Explain the preparation of Account Current by the Method of Products. [4]

Answer

Format of Account Current

Debit Side						Credit Side					
Trans Date	Due Date	Parti-culars	Amt	No. of Days	Product	Trans Date	Due Date	Particulars	Amt	No. of Days	Product
	Note1			Note 2	Note 3		Note 1			Note 2	Note 3

Note:

- If no specific date is mentioned as the date on which payment is due, the date of the transaction itself is presumed to be the Due Date.
- Number of Days is counted from the Due Date of each transaction to the date of rendering the account.
- Each entry in Product Column = Entry in Amount Column x No. of Days.
- At the end of the period, the Product Column in balanced and the Net Product is the Amount on which Interest is to be computed. This is called "Product Balance".
- Interest = Product Balance x Rate of Interest $\times \frac{1}{365}$. This Interest Amount is posted to the Account Current on the side opposite to the side where the "Product Balance" stands.
- **Note:** This Method computes the Net Interest directly, i.e. Interest Payable and Interest Due are mutually set-off and only the Net Interest Due / Receivable is reflected in the Account Current. Interest on the individual transactions is not reflected as in the Interest Method.

(ii) On 01.04.20X1, Dhakshinamurthi purchased 1,000 Equity Shares of ₹ 100 each in Lakshmi Ltd at ₹ 120 each from a Broker, who charged 2% Brokerage. He incurred 50 paise per ₹ 100 as cost of Share Transfer Stamps. On 31.01.20X2, Bonus was declared in the ratio of 1:2. Before and after the record date of Bonus Shares, the Shares were quoted at ₹ 175 per Share and ₹ 90 per Share respectively. On 31.03.20X2, Dhakshinamurthi sold Bonus Shares to a Broker, who charged 2% Brokerage.
Show the Investment Account in the books of Dhakshinamurthi, who held the shares as Current Assets. Closing Value of Investments shall be made at Cost or Market value whichever is less. [4]

Answer:

Basic Computations

Particulars	Computation	₹
(a) Cost of Shares purchased on 01.04.20X1	(1,000 x 120) + (2% of 1,20,000) + 0.5% of 1,20,000	1,23,000
(b) Sale Proceeds of Shares sold on 31.03.20X2	(500 x 90) - 2% of 45,000	44,100
(c) Profit on Sale of Bonus Shares on 31.03.20X2	Sale Proceeds = 44,100 Less: Average Cost $1,23,000 \times \frac{50,000}{1,50,000}$ =(41,000)	3,100
(d) Valuation of Equity Shares of 31.03.20X2	Cost: $1,23,000 \times \frac{1,00,000}{1,50,000}$ = 82,000 Market Value: 1,000 Shares of ₹ 90 = 90,000	Least of the two 82,000

Investment (Equity Shares of Lakshmi Limited) Account

Dr. **Cr.**

Date	Particulars	NV	Cost	Date	Particulars	NV	Cost
01.04.20X1	To Bank	1,00,000	1,23,000	31.03.20X2	By Bank	50,000	44,100
31.03.20X2	To Bonus Shares	50,000	3,100	31.03.20X2	By balance c/d	1,00,000	82,000
31.03.20X2	To P&L A/c						
		1,50,000	1,26,100			1,50,000	1,26,100

Note: Here NV = Nominal Value

(c) B of Bombay consigned 400 packages of coffee to K of Kanpur. The cost of each package was ₹300. A sum of ₹2,000 was paid towards freight and by B. In the transit 60 packages were damaged. However, the consignor received ₹400 for the damaged packages from the Insurance Company.

The consignee accepted a bill of exchange for 60,000 for 60 days as an advance to B of Bombay. The Operating statement from the consignee disclosed the following information:
(i) 280 packages were sold @ ₹ 360 per package; (ii) The damaged packages were sold @ ₹ 100 per package, (iii) They also paid ₹ 1,400 towards godown rent, ₹ 1,000 for carriage outwards and ₹ 3,400 towards clearing charges.

The consignee is entitled to a commission of 10% on the sales proceeds. At the end of the consignment period, K of Kanpur sent a Bank draft to B of Bombay. You are required to prepare the Consignment to Kanpur Account and Damage in Transit Account in the books of consignor B of Bombay. [8]

Answer:

In the books of B of Bombay (Consignor)

Dr. Consignment to Kanpur Account Cr.

Particulars	Amount (₹)	Amount (₹)	Particulars	Amount (₹)	Amount (₹)
To, Goods sent on Consignment A/c [400 x ₹ 300]		1,20,000	By Damage in Transit A/c [Note 1]		18,300
To, Bank A/c : Freight & Insurance		2,000	By K A/c : Sales [280x360]		1,00,800
To, K A/c:			By Stock on Consignment A/c [Note 2]		18,900
- Godown Rent	1,400		By Profit and Loss A/c [Loss on Consignment]		480
- Carriage Outward	1,000				
- Clearing Charges	3,400	5,800			
To, K A/c: Commission [10% of 1,06,800]		10,680			
		1,38,480			1,38,480

Dr. Damage in Transit Account Cr.

Particulars	Amount (₹)	Particulars	Amount (₹)
To, Consignment to Kanpur A/c	18,300	By Cash A/c (Ins. Claim Recd)	400
		,, K A/c [60 x ₹100]	6,000
		,, Profit and Loss A/c	11,900
	18,300		18,300

Working Notes:

1. Damage in Transit

Particulars	No. of package	Amount (₹)
Goods Sent	400	1,20,000
Add: Consignor's Expenses	-	2,000
	400	1,22,000
Abnormal Loss	60	$1{,}22{,}000 \times \frac{60}{400}$ = ₹ 18,300

2. Stock on Consignment

Qty = 400 – (60+280) = 60

Particulars	Amount (₹)
Value excluding consignee's Expenses $[1,22,000 \times \frac{60}{400}]$	18,300
Add: Non Recurring Expenses of Consignee $\frac{3,400}{340} \times 60$	600
	18,900

Actual Loss on Consignment

Loss as per Consignment Account	₹	480
Abnormal Loss	₹	11,900
	₹	12,380

7 (Answer any two) **[8x 2]**

(a) From the following information Calculate Depreciation and Advance against Depreciation as per Regulation 21 of the Central Electricity Regulatory Commission (Terms and Conditons of Tariff) Regulations, 2004.

- **Date of Commercial Operation of COD = 1st April 2010**
- **Approved opening Capital cost as on 1st April 2010 = 1,50,000**
- **Weighted Average Rate of Depreciation: 3.5%**
- **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}	**10,000**	**3,000**	**2,000**	**1,000**
Repayment of Loan	**8,000**	**10,000**	**10,000**	**11,000**
Weighted Average Rate of Interest on Loan	**7.4**	**7.5**	**7.6**	**7.5**

[8]

Answer :

1. COMPUTATION OF DEPRECIATION

Particulars	1st year	2nd year	3rd year	4th year
A. Opening Capital Cost	1,50,000	1,60,000	1,63,000	1,65,000
B. Additional Capital Cost	10,000	3,000	2,000	1,000
C. Closing Capital Cost (A + B)	1,60,000	1,63,000	1,65,000	1,66,000
D. Average Capital Cost [(A + C)/2]	1,55,000	1,61,500	1,64,000	1,65,500
E. Weighted Average Rate of Dep.	3.5%	3.5%	3.5%	3.5%
F. Annualized Depreciation (D x E)	5,425	5,652.5	5,740	5,792.50
G. Advance Against Depreciation (AAD)	2,575	4,347.50	4,260	5,207.50
H. Total Depreciation (including AAD) for Tariff (F +G)	8,000	10,000	10,000	11,000

2. COMPUTATION OF ADVANCE AGAINST DEPRECIATION (AAD)

Particulars	1st year	2nd year	3rd year	4th year
A. Repayment of Loan (10% of Loan Amou	8,000	10,000	10,000	11,000
B. Depreciation (Excluding AAD)	5,425	5,652.5	5,740	5,792.50
C. Difference between A & B (A - B)	2,575	4,347.50	4,260	5,207.50
D. Cumulative Repayment of Loan	8,000	18,000	28,000	39,000
E. Cumulative Depreciation (Excluding AAD) at the beg.	5,425	11,077.50	16,817.50	22,610
F. Difference between D & E (D - E)	2,575	6,922.50	11,182.50	16,390
G. Advance Against Depreciation (AAD) (Minimum of C & F)	2,575	4,347.50	4,260	5,207.50

(b)(i) Write a note on Reserve Funds (Statutory Reserve) in the context of Banking Companies [Under Section 17]. **[3]**

Answer:

Every banking company incorporated in India is required to transfer at least 25% of its profit to the reserve fund.

The profit of the year as per the profit and loss account prepared u/s 29 is to be taken as base for the purpose of such transfer and transfer to reserve fund should be made before declaration of any dividend.

If any banking company makes any appropriation from the reserve fund or securities premium account, it has to report to the Reserve Bank of India the reasons for such appropriation within 21 days.

(ii) Explain about the Maintenance of Cash Reserve Under Section 18. **[5]**

Answer:

- Every non-scheduled bank has to maintain a cash reserve at least to the extent of at % prescribed (by RBI) of its demand and time liabilities in India on the last Friday of the second preceding fortnight.
- Cash reserve can be maintained by way of balance in a current account with the Reserve Bank of India or by way of net balance in current accounts.
- Every non-scheduled bank has to submit a return showing the amount so held for cash reserve along with the particulars of its demand and time liabilities in India on such Friday before 20th day of every month.
- If any such Friday is a holiday under the Negotiable Instruments Act 1881, such return is to be sent at the close of business on the preceding working day.
- Every Scheduled Commercial Bank has to maintain cash reserve as per direction of the RBI issued under Section 42 (IA) of the Reserve Bank of India Act, 1934.

(c) The Revenue Account of a Life Insurance Company showed the Life Fund at ₹ 73,17,000 on 31st March before taking into consideration the following items. Pass the Journal Entries for the following and compute the Corrected Balance of Life Fund.

Particulars	₹
Claims Intimated but not Admitted	**98,250**
Bonus Utilized in Reduction of Premium	**13,500**
Interest Accrued on Investments	**29,750**
Outstanding Premiums	**27,000**

Claims covered under Re-Insurance	**40,500**
Provision for Taxation	**31,500**

[8]

Answer:

Journal Entries

	Particulars	Dr. (₹)	Cr. (₹)
1.	Claims A/c Dr. To Outstanding Claims A/c (Being Claims Intimated but not admitted, omitted to be accounted earlier, now brought into account.)	98,250	98,250
2.	Bonus in Reduction of Premium A/c Dr. To Premium Income A/c (Being Bonus in Reduction of Premium, omitted to be accounted earlier, now accounted for)	13,500	13,500
3.	Accrued Interest A/c Dr. To Interest Income A/c (Being Interest Accrued on Investments as on 31st March accounted for)	29,750	29,750
4.	Outstanding Premium A/c Dr. To Premium Income A/c (Being Outstanding Premiums brought into account)	27,000	27,000
5.	Re-Insurance Claims Rec'able from Other Insurance Companies A/c. Dr. To Claims A/c (Being adjustments for Claims covered under re-insurance, reimbursements receivable)	40,500	40,500
6.	Profit and Loss A/c Dr. To Provision for Taxation A/c (Being adjustments for Provision for Taxation)	31,500	31,500

2. Corrected Balance of Life Fund

Particulars		₹
Life Assurance Fund as on 31st March (before above corrections)		73,17,000
Add: Bonus in Reduction of Premium (Being Income Equivalent)	13,500	
Accrued Interest	29,750	
Outstanding Premium	27,000	
Re-Insurance Claims	40,500	1,10,750
Total of above		74,27,750
Less: Claims Outstanding	98,250	
Bonus in Reduction of Premium (Being Cost Equivalent)	13,500	
Provision for Taxation	31,500	1,43,250
Corrected Balance of Life Fund as on 31st March		72,84,500