Paper 5- Financial Accounting

The following table lists the learning objectives and the verbs that appear in the syllabus learning aims and examination questions:

	Learning objectives	Verbs used	Definition
LEVEL B	KNOWLEDGE What you are expected to know	List	Make a list of
		State	Express, fully or clearly, the details/facts
		Define	Give the exact meaning of
	COMPREHENSION What you are expected to understand	Describe	Communicate the key features of
		Distinguish	Highlight the differences between
		Explain	Make clear or intelligible/ state the meaning or purpose of
		Identity	Recognize, establish or select after consideration
		Illustrate	Use an example to describe or explain something
	APPLICATION How you are expected to apply your knowledge	Apply	Put to practical use
		Calculate	Ascertain or reckon mathematically
		Demonstrate	Prove with certainty or exhibit by practical means
		Prepare	Make or get ready for use
		Reconcile	Make or prove consistent/ compatible
		Solve	Find an answer to
		Tabulate	Arrange in a table
	ANALYSIS How you are expected to analyse the detail of what you have learned	Analyse	Examine in detail the structure of
		Categorise	Place into a defined class or division
		Compare and contrast	Show the similarities and/or differences between
		Construct	Build up or compile
		Prioritise	Place in order of priority or sequence for action
		Produce	Create or bring into existence

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) Mention any two items of cost that are excluded from cost of inventories.

Answer:

Following are the items that are excluded from cost of inventories:

- Storage Cost.
- Abnormal amounts of wasted materials, labours, other production costs.

(ii) Vivek Ltd. undertook a construction Contract for ₹100 Crores in April. The cost of construction was initially estimated at ₹70 Crores. The contract is to be completed in 3 years. While executing the contract, the company estimated the cost of completion of the contract at ₹106 Crores. Can the Company provide for the expected loss in the books of accounts for the year ended 31st march?

Answer:

As per AS- 7, an expected Loss on Construction should be recognized as an expense immediately.

The Loss of ₹6 Crores (106 Crores – 100 Crores) should be recognised immediately by Vivek Ltd. in the current financial year.

(iii) A and B are partners in a firm sharing profits in the ratio of 4:3. They agreed to admit C in the firm for 1/6th share in profit. Compute the new profit sharing ratio of A, B and C.

Answer:

Let total profit be 1,So

$$1-\frac{1}{6}=\frac{6-1}{6}=\frac{5}{6}$$

$$A=\frac{4}{7}\times\frac{5}{6}=\frac{20}{42}$$

$$B=\frac{3}{7}\times\frac{5}{6}=\frac{15}{42}$$

$$C=\frac{7}{7}\times\frac{1}{6}=\frac{7}{42}$$

Hence the new profit sharing ratio is — $\frac{20}{42}:\frac{15}{42}:\frac{7}{42}$ i.e. 20:15:7.

(iv) Purchase Cost of machinery ₹7,20,000; Carriage inwards ₹15,000; Transit insurance ₹ 8,000; Establishment Charges ₹25,000; Workshop Rent ₹25,000; Salvage value ₹50,000 and estimated working life 8 years. On the basis of straight line method what will be the amount of depreciation for the third year?

Answer:

Calculation of amount of depreciation for the third year — (7,20,000 + 15,000 + 8,000 + 25,000 – 50,000)/ 8 = ₹89,750, every year the amount of depreciation will be same as straight line method is being followed.

(v) Arti Ltd. purchased a machine on hire purchase system for a cash price ₹5,00,000 to be paid as ₹ 78,700 cash down and the balance by three equal annual installment of ₹ 2,00,000 each. If interest is charged @ 20% per annum then what will be the amount of interest payable on second installment?

Answer:

Particulars	₹
Cash Price	5,00,000
Less: Cash down payment	78,700
	4,21,300
(Interest payable on 1st installment 4,21,300 × 20% = ₹ 84,260)	
Less: Principal amount payable at 1st Installment (2,00,000 – 84,260)	1,15,740
Balance	3,05,560
Interest payable on 2nd installment (3,05,560 × 20%)	61,112

(vi) X Ltd. maintains three Debtors Ledgers viz. (A – J) Debtors ledger, (K – P) Debtors ledger and (Q – Z) Debtors Ledger. Debtors list include ₹5,000 owed by Miss Mukherjee who became Mrs. Banerjee after marriage. Give the necessary journal entries for transfer assuming Self Balancing System.

Answer:

Journal

Particulars	L. F.	Dr. (₹)	Cr. (₹)
Mrs. Banerjee (In A – J debtors' Ledger) Dr. To Miss Mukherjee(In K – P Debtors' ledger) (Being transfer of A/c of Miss Mukherjee to A – J Debtors' Ledger)		5,000	5,000
General Ledger Adjustment A/c (In K – P Debtors' Ledger Dr. To (K – P) Debtors' Ledger Adjustment A/c (In G. L.) (Being reduction in total of K – P Debtors)		5,000	5,000
(A – J) Debtors' Ledger Adjustment A/c (In G. L.) Dr. To General Ledger adjustment A/c (In A- J Debtors' Ledger) (Being increase in (A – J) debtors)		5,000	5,000

(vii) Net Profit ₹2,40,000, Turnover of last accounting year ₹40,00,000, Standing charges (out of which ₹80,000 have not been insured) ₹5,60,000. Special Circumstance Clause in the Policy allows for increase in the rate of Gross Profit by 2%. Compute the G.P Ratio after increment.

Answer:

$$\text{G. P. Ratio} = \frac{\text{Net Profit} + \text{Insured Standing Charges}}{\text{Turnover of last accounting year}} \times 100$$

$$= \frac{₹2,40,000 + ₹4,80,000}{₹40,00,000} \times 100 = 18\%$$

Agreed Increase = 2%, Agreed G. P. ratio = 18% + 2% = 20%

(viii) From the following particulars, calculate the cost of goods of received by the consignee:

Goods Consigned	**1,000 kg at ₹100 per kg.**
Consignor's Expenses	**₹8,400**
Consignee's Expenses —	
Landing Charges	**₹4,600**
Carriage to Godown	**₹400**
Godown Rent	**₹600**
Advertisement	**₹1,400**
Sales made by Consignee	**900 kg at ₹150 per kg.**
Commission Charged by consignee	**5% on sales**

Answer:

Valuation of Unsold Stock on Consignment

Particulars	**Qty kg**	**Amount ₹**
Cost Price of Goods consigned	1,000	1,00,000
Add: Consignor's Expenses	-	8,400
	1,000	1,08,400
Add: Non- recurring Expenses of Consignee [Landing charges + Carriage to Godown]	-	5,000
Cost of Goods received by Consignee	**1,000**	**1,13,400**

(ix) In X bank Ltd. the doubtful assets (more than 3 years) as on 31.03.2013 is ₹1,000 lakhs. The value of security (including DICGS 100% cover of ₹100 lakhs) is ascertained at ₹500 lakhs. How much provision must be made in the books of the bank towards doubtful assets?

Answer:

Particulars	**(₹ in lakhs)**
Doubtful Assets (more than 3 years)	1,000
Less: Value of security (excluding DICGS cover)	(400)
Less: DICGC cover	(100)

Unsecured portion	500
Provision for unsecured portion @ 100%	500
Provision for secured portion @ 100%	400
Total Provision to be made	900

(x) Discuss the constitution of Central Electricity Authority.

Answer:

The State Electricity Authority (CEA) shall consist of not more than 14 Members (including its Chairperson), of whom not more than 8 shall be full-time members to be appointed by the Central Government. The Central Government appoints one of the full time members to be the chairman of the Authority.

2. (Answer any two)

(a) On 31.03.2015, the date of closing of the financial year, a trader contained the following balances of Nominal Accounts:
Purchases ₹8,640; Sales ₹14,290; Return Outwards ₹780; Carriage Inwards ₹940; Wages ₹2,920; Salaries ₹3,100; Discount Received ₹440 and Bad Debt ₹100.
The Closing Stock was valued at ₹13,000.
Show the Closing Journal Entries related to the preparation of the Trading and Profit & Loss Account. [4]

Answer:

Journal Proper

Date	Particulars		L. F.	Dr. Amount ₹	Cr. Amount ₹
31.03.2015	Trading A/c	Dr.		12,500	
	To Purchase A/c				8,640
	To Carriage Inwards A/c				940
	To Wages A/c				2,920
	[Transfers made to Trading Account]				
	Return Outward A/c	Dr.		780	
	Sales A/c	Dr.		14,290	
	Closing Stock A/c	Dr.		13,000	
	To Trading A/c				28,070
	[Transfers made to Trading Account]				
	Trading A/c	Dr.		15,570	
	To Profit & Loss A/c				15,570
	[Gross Profit transferred]				
	Profit & Loss A/c	Dr.		3,200	
	To Salaries A/c				3,100
	To Bad Debts A/c				100
	[Transfers made to Profit & Loss Account]				
	Discount Received A/c	Dr.		440	
	To Profit & Loss A/c				440
	[Transfers made to Profit & Loss Account]				

	Profit & Loss A/c Dr. To capital A/c [Net Profit transferred to Capital A/c]		12,810	 12,810

(b) State with reasons the nature of expenditure or receipts in each of the following cases :

(i) Freight on new machine ₹5,000 and its installation cost ₹2,500.

(ii) Old Furniture sold for ₹800 (cost ₹4,000 but written down value ₹900).

(iii) ₹1,50,000 spent for increasing the sitting capacity of a cinema hall and ₹7,500 paid for painting it.

(iv) Daily repairing cost of machineries of ₹5,000. [4]

Answer:

(i) Both ₹5,000 and ₹2,500 are Capital Expenditure because —
- these are incidental to the acquisition and starting of operation of the machine.
- the earning capacity of the business will increase.

(ii) The cost price need not be considered. The loss on sale ₹200 (₹900 – ₹700) is a revenue loss to be debited to Profit/Loss Account. The sale price received ₹800 is a capital receipt.

(iii) Increase of sitting capacity is a permanent improvement of the cinema hall. It will help to increase the earning capacity. So it is a capital expenditure. Cost of painting is a normal and regular expense. It is a revenue expense.

(iv) Daily repairing cost of machineries of ₹5,000 is to be treated as revenue expenses as it is recurring in nature.

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

(i) Goods taken by the proprietor ₹3,000 for gift to his daughter were not recorded at all.

(ii) ₹3,000 received from Niraj against debts previously written off as bad debts have been credited to his personal account.

(iii) Received interest ₹300, posted to loan account.

(iv) A cheque received from Vishal, a debtor, for ₹4,000 was directly received by the proprietor who deposited it into his personal bank account. [4]

Answer:

Books of ………….
Journal

Date	Particulars	L. F.	Dr. Amount ₹	Cr. Amount ₹
	Drawings A/c Dr. To Purchase A/c [Goods taken by proprietor previously not recorded, now rectified]		3,000	 3,000
	Niraj's A/c Dr. To Trading A/c [Niraj's A/c wrongly credited for amount received against bad debts written of, now rectified]		3,000	 3,000
	Loan A/c Dr. To Interest Received A/c [Interest received wrongly credited to Loan A/c,		300	 300

	now rectified]			
	Drawings A/c Dr. To Vishal's A/c [Debtors] [Cheque from a Debtor directly received and deposited into personal bank a/c by proprietor, now adjusted]		4,000	4,000

(ii) Correct Entry (should have been) Cash A/c Dr. 1,500 To Bad Debts recovery A/c 1,500	**Wrong Entry has been** Cash A/c Dr. 1,500 To Niraj's A/c 1,500

3. (Answer any two)

(a) X, Y and Z are in partnership sharing Profits and Losses in the ratio 2: 2: 1. Partnership deed provides that all the partners are entitled to interest @ 9% per annum on fixed capital of ₹ 10,00,000 contributed in profit sharing ratio. Z is entitled for 10% commission of net profit after such commission, for special performance.

On 01.09.2014, it was decided to retire X on health grounds and admit A, the son of X as partner with 1/5th share in Profit and Loss: other decisions taken on this date were as follows:

(i) Firm's fixed capital to be raised to ₹15,00,000 and partners to maintain fixed capital in profit sharing ratio and, interest on capital shall be paid @ 10% per annum from 01/09/2014.
(ii) No commission to be paid to Z from 01.09.2014.
(iii) Goodwill is assessed at ₹3,00,000.
(iv) X was paid ₹2,50,000 in cash on retirement.
(v) Balance claim payable to X was to be credited to A's fixed capital account and current account.
(vi) Profit for the accounting year 2014-15 before interest on capital, Z's commission was ₹ 9,00,000.

You are required to prepare:
(i) Profit and Loss Appropriation A/c of the firm for the year ended 31st March, 2015.
(ii) Partners Current A/cs. [12]

Answer:

Profit & Loss Appropriation Account
for the year ending 31st March, 2015

Dr. **Cr.**

Particulars	For the period			For the period	
	1.04.14 to 31.08.14	01.09.14 to 31.03.15		01.04.14 to 31.08.14	1.09.14 to 31.03.15
	₹	₹		₹	₹
To Interest on Capital	37,500	87,500	By Net Profit	3,75,000	5,25,000
To Z's Commission	30,682		(Before interest & Commission)		
To Tran. to Current A/c					
X	1,22,727	---			

Y	1,22,727	2,33,333			
Z	61,364	1,16,667			
A	---	87,500			
	3,75,000	5,25,000		3,75,000	5,25,000

Partners' Current Account

Dr. **Cr.**

Particulars	**X**	**Y**	**Z**	**A**	**Particulars**	**X**	**Y**	**Z**	**A**
	₹	₹	₹	₹		₹	₹	₹	₹
From 1.4.14 to 31.8.14					By X's Capital (transfer)	4,00,000	---	---	---
To X's Capital	---	80,000	40,000	---	By Interest on Capital	15,000	15,000	7,500	---
To Bank	2,50,000	---	---	---	By Commission	---	---	30,682	---
To A's Capital	3,00,000	---	---	---	By Y's Capital	80,000	---	---	---
To A's Current	1,07,727	---	---	---	By Z's Capital	40,000	---	---	---
To Balance c/d	---	57,727	59,546	---	By P/L Appropriate A/c	1,22,727	1,22,727	61,364	---
From 1.9.14 to 31.3.15	6,57,727	1,37,727	99,546	---		6,57,727	1,37,727	99,546	---
To Y's Capital	---	---	---	40,000	By Balance b/d	---	57,727	59,546	---
To Z's Capital	---	---	---	20,000	By X's Current A/c	---	---	---	1,07,727
To Balance c/d	---	3,77,727	2,19,546	1,52,727	By A's Capital A/c	---	40,000	20,000	---
					By Interest on Capital	---	46,667	23,333	17,500
					By P/L Appropriate A/c	---	2,33,333	1,16,667	87,500
	---	3,77,727	2,19,546	2,12,727		---	3,77,727	2,19,546	2,12,727

Working Notes:

A. New Profit Sharing Ratio:

A's share = 1/5

Y's share = 1 – 1/5 = 4/5 × 2/3 = 8/15

Z's share = 4/5 × 1/3 = 4/15

Hence, New Sharing Ratio of Y, Z & A is 8 : 4 : 3

B. Adjustment of Goodwill:

At the time of retirement of X

Particulars	X (₹)	Y (₹)	Z (₹)
Goodwill as per old ratio 2 : 2 : 1	1,20,000	1,20,000	60,000
Less: Goodwill in Y & Z 2 : 1	---	2,00,000	1,00,000
Net	1,20,000 (Cr.)	80,000 (Dr.)	40,000 (Dr.)

At the time of admission of A	Y	Z	A
Goodwill in 2 : 1	2,00,000	1,00,000	---
Less: Goodwill in new ratio (8:4:3)	1,60,000	80,000	60,000
Net	40,000 (Cr.)	20,000 (Cr.)	60,000 (Dr.)

C. Interest on Partner's Capital

For 1.04.14 to 31.08.14 on fixed capital of X, Y & Y (2 : 2 : 1)

X – (10,00,000 × 2/5)× 9/100 × 5/12 = 4,00,000 × 9/100 × 5/12 = ₹ 15,000

Y – 4,00,000 × 9/100 × 5/12 = ₹ 15,000

Z – (10,00,000 × 1/5) × 9/100 × 5/12 = 2,00,000 × 9/100 × 5/12 = ₹ 7,500

Total Interest for first 5 months = ₹37,500

For 01.09.14 to 31.03.15 on Fixed Capital of Y = 15,00,000 × 3/15 = 3,00,000

Interest on Y's Capital = 8,00,000 × 10/100 × 7/12 = ₹ 46,667

Z's Capital = 4,00,000 × 10/100 × 7/12 = ₹ 23,333

A's Capital = 3,00,000 × 10/100 × 7/12 = ₹ 17,500

Total Interest = ₹ 87,500.

D. Z's Commission:

Particulars	₹
Profit for the period 1.04.14 to 31.08.14 = 9,00,000 × 5/12 =	3,75,000
Less: Interest on Capital	37,500
Profit before Commission	3,37,500

Z's Commission = 3,37,500 × 10/110 = ₹ 30,682

E. Distribution of Profit among Partners:

	X (₹)	Y (₹)	Z (₹)	A (₹)
Profit for first 5 months:				
3,75,000 – 37,500 – 30,682 = 3,06,818				
Among X, Y and Z in the ratio 2 : 2 : 1	1,22,727	1,22,727	61,364	---
Profit for last 7 months:				
5,25,000 – 87,500 = 4,37,500 among Y, Z & A in the ratio 8 : 4 : 3	---	2,33,333	1,16,667	87,500

(b) (i) Ping-Pong Limited has made plans for the next year 2015-16. It is estimated that the company will employ total assets, of ₹ 90,00,000; 30% of assets being financed by debt at an interest cost of 10% p.a. The direct costs for the year are estimated at ₹ 50,00,000 and all other operating expenses are estimated at ₹7,50,000. The sales revenue are estimated at ₹85,00,000. Tax rate is assumed to be 30%. Required to calculate:

- **Net profit margin;**
- **Return on Assets;**
- **Asset turnover; and**
- **Return on Equity.** **[8]**

Answer:

The net profit is calculated as follows:

Particulars	₹
Sales Revenue	85,00,000
Less: Direct Costs	50,00,000
Gross profits	35,00,000
Less: Operating Expense	7,50,000
EBIT	27,50,000
Less: Interest (30% of 90,00,000 = 27,00,000 × 10%)	2,70,000
EBT	24,80,000
Less: Taxes (@ 30%)	7,44,000
PAT	17,36,000

(i) Net Profit Margin
Net Profit Margin = EBIT (1 – t)/Sales ×100 = 27,50,000 (1– 0.3)/85,00,000×100 = 22.65%
Or, PAT / Sales × 100 = 17,36,000 / 85,00,000 × 100 = 20.42%.

(ii) Return on Assets (ROA)
ROA = EBIT (1 – t)/Total Assets = 27,50,000 (1 – 0.3)/90,00,000 = 21.39%.

(iii) Asset Turnover
Asset Turnover = Sales / Assets = 85,00,000 / 90,00,000 = 0.94

(iv) Return on Equity (ROE)
ROE = PAT / Equity = 17,36,000 / (90,00,000 × 0.70) = 17,36,000 / 63,00,000 = 27.56%.

(b) (ii) On 01.04.2010 a machine was purchased at a cost of ₹3,50,000 and it was expected to be used for 10 years without having any residual value. At the beginning of 2014 it is revalued at ₹2,94,000. How much should be the amount of depreciation for the year 2014?

[4]

Answer:

Annual Depreciation provided so far: $\frac{\text{Original cost} - \text{Residual value}}{\text{Estimated working life}} = \frac{₹3,50,000}{10}$ or ₹35,000

Total Depreciation provided so far: [2010 to 2014] or for 4 years = 4 × 35,000 or ₹1,40,000

Written Down Value on 31.12.2013:

	₹
Original cost	3,50,000
Less: Total Depreciation provided	1,40,000
	2,10,000
Revalued amount	2,94,000
Unamortized Depreciable Amount	**2,94,000**

Annual Depreciation over the remaining years of working life $\frac{₹2,94,000}{6}$ or ₹**49,000.**

Hence, for the year 2014 the amount of depreciation will be ₹49,000.

(c) The proprietors of Dhoora Departmental store wish to ascertain approximately separate net profits of their two particular departments A and B for the year ended 31st March, 2015. It is not possible to take stock on that date. However, normal rates of Gross Profit (before charging direct expenses) for the department concerned were 40% and 30% on sales respectively. There are six departments in the stores. The following figures were extracted from the books for the year ending 31st March, 2015:

	Department A (₹)	Department B (₹)
Stock (April 1, 2014)	3,00,000	2,80,000
Sales	14,00,000	12,00,000
Purchases	9,00,000	7,20,000
Direct Expenses	1,83,000	2,84,000

The total indirect expenses of all the six departments for the period were ₹3,60,000. These expenses (except one-third which is to be divided equally) are to be charged in proportion to departmental sales. The total sales of the other departments were ₹14,00,000. The Manager of each department is also entitled to a commission of 2 % on the turnover of his department. Prepare Departmental Trading and Profit& Loss Account in columnar form for the year ending 31st March,2015 making a stock reserve of 5% for each department on the estimated value of stock on 31st March,2015. [12]

Answer:

Departmental Trading and Profit & Loss Account
For the year ending 31st March, 2015

(₹ in '000)

Particulars	Dept. A (₹)	Dept. B (₹)	Total (₹)	Particulars	Dept. A (₹)	Dept. B (₹)	Total (₹)
To Opening Stock	300	280	580	By Sales	1,400	1,200	2,600
To Purchases	900	720	1,620	By Closing Stock	360	160	520
To Direct Exp.	183	284	467	(Balancing Figure)			
To G.P. C/d	377	76	453				
	1,760	**1,360**	**3,120**		**1,760**	**1,360**	**3,120**
To Indirect Exp.				By G.P. b/d	377	76	453
-Equal Allocation:	20	20	40	By Net Loss	--	48	48
-Sales basis Allocation	84	72	156				
To Manager's commission @ 2% on Sales	28	24	52				
To Stock Reserve @ 5% on Closing Stock	18	8	26				
To Net Profit	227	--	227				
	377	**124**	**501**		**377**	**124**	**501**

Working Notes:

A. Gross profit before direct expenses:

	A (₹)	B (₹)
A – 40% of ₹14,00,000	5,60,000	---

B – 30% of ₹12,00,000	---	3,60,000
Less: Direct Expenses	1,83,000	2,84,000
Net Gross Profit	3,77,000	76,000

B. Allocation of Indirect Expenses:
Equal Allocation – 3,60,000 × 1/3 = 1,20,000 × 1/6 = ₹ 20,000 for each department.
Sales Basis – Sales Ratio for A, B and other 4 departments = 14,00,000 : 12,00,000 : 14,00,000 or 7 : 6 : 7.
Indirect expenses for this basis = 3,60,000 × 2/3 = ₹ 2,40,000.
Share of Dept. A = 2,40,000 × 7/20 = ₹ 84,000
Share of Dept. B = 2,40,000 × 6/20 = ₹ 72,000.

4. (Answer any two)

(a) Messers Lion & Co. are maintaining accounts on self-balancing system. On 31.3.2015 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]**

Answer:

Journal Entries

Date 31.3.15		**L.F.**	**Dr. (₹)**	**Cr. (₹)**
(i)	Sales Ledger Adjustment A/c (in General Ledger) Dr. To General Ledger Adjustment A/c (in Purchase Ledger) [Error corrected]		4,300	4,300
	General Ledger Adjustment A/c (in Purchase Ledger) Dr. To Purchase Ledger Adjustment A/c (in General Ledger) [Error corrected]		4,300	4,300
(ii)	Purchase Ledger Adjustment A/c (in General Ledger) Dr. To General Ledger Adjustment A/c (in Purchase Ledger) [Self-Balancing entry made for Purchase Ledger]		4,750	4,750
	General Ledger Adjustment A/c (In Sales Ledger) Dr. To Sales Ledger Adjustment A/c (in General Ledger) [Self-Balancing entry made for Sales Ledger]		4,750	4,750

(b) How will you show the following items in General Ledger Adjustment Account in Debtors Ledger:

		₹
(a)	**Transfer from Debtors' Ledger to Creditors' Ledger**	**1,100**
(b)	**Transfer from Creditors' Ledger to Debtors' Ledger**	**1,900**
(c)	**B/R endorsed to Creditors**	**4,000**
(d)	**Endorsed Bills dishonored**	**1,000**
(e)	**Bad Debts written off (after deducting bad debts recovered ₹300)**	**2,200**
(f)	**Provision for Doubtful Debts**	**550**
(g)	**Provision for Discount on Debtors**	**1,000**
(h)	**Reserve for Discount on Creditors**	**2,000**
(i)	**Cash Sales**	**3,000**
(j)	**Cash Purchases**	**4,000**
(k)	**Bill Receivable Collected on maturity**	**5,000**
(l)	**Bills Receivable discounted**	**6,000**
(m)	**Bills Payable matured**	**7,000**
(n)	**Discount allowed**	**1,500**
(o)	**Discount received**	**600**
(p)	**Allowances from Creditors**	**3,200**
(q)	**Discount allowed to debtors ₹500 was recorded as discount received from creditors.**	
(r)	**Closing Debtors Balance (As per General Ledger Adjustment Account)**	**60,000 (Cr.)**
(s)	**Closing Creditors Balance (As per General Ledger Adjustment Account)**	**30,000 (Cr.)**

[4]

Answer:

Dr. General Ledger Adjustment Account (in Debtor Ledger) Cr.

Particulars	**₹**	**Particulars**	**₹**
To Debtors Ledger Adjustment A/c:		By Debtors Ledger Adjustment A/c:	
Discount Allowed (₹1,500 + ₹500)	2,000	Endorsed B/R dishonoured	1,000
Bad Debts (2,200 + 300)	2,500		
T/f from Drs. Ledger to Crs. Ledger	1,100		
T/f from Cr. Ledger to Drs. Ledger	1,900		
To Balance c/d (60,000 - 500)	59,500		

Notes:

The following items do not appear in General Ledger Adjustment Account:

(i) Cash Sales
(ii) Provision for Doubtful Debts
(iii) Provision for Discount on Debtors
(iv) Bad Debts Recovered
(v) Bills Receivable matured/collected on maturity
(vi) Bills Receivable discounted
(vii) Bills Receivable endorsed

(c) From the following information, prepare Total Creditors Account for the year ending on 31st March 2015:

Particulars	₹	Particulars	₹
Creditors as on 1.04.2014	3,00,000	Cash paid to creditors	2,00,000
Credit Purchases	12,20,000	Cheque issued to Creditors	4,00,000
Returns Outward	20,000	Bills Payables accepted	6,00,000
Discount Received	10,000		

[4]

Answer:

Total Creditors Account

Dr. **Cr.**

Date	Particulars	₹	Date	Particulars	₹
31.03.2015	To Returns Outward	20,000	01.04.2014	By Balance b/d	3,00,000
	To Discount Received	10,000	31.03.2015	By Credit Purchases	12,20,000
	To Cash A/c	2,00,000			
	To Bank A/c	4,00,000			
	To Bills payable A/c	6,00,000			
	To Balance c/d	2,90,000			
		15,20,000			15,20,000

5. (Answer any two)

(a) On 31st October 2014, Uma Construction Ltd. undertook a contract to construct a flyover for ₹430 Crores. On 31st March 2015, the company found that the Work is Certified for ₹200 Crores and Work to be Certified is for ₹70 Crores. Prudent estimates of additional Cost for Completion was ₹180 Crores. What amount should be charged to Revenue in the Financial Accounts for the year ended 31st March 2015 as per AS -7? [4]

Answer:

Particulars	₹ in Crores
1. Contract Price (given)	430.00
2. Cost incurred till date (Work Certified + Work to be Certified)	270.00
3. Further Costs to be incurred to complete the Contract	180.00
4. Total Contract Costs (2) + (3)	450.00
5. Expected Loss on Contract (1) - (4)	(20.00)
6. Percentage of Completion based on Costs (2) ÷ (4)	60%
7. Contract Revenue recognised (1) × (6)	258.00
8. Contract Costs recognised (as per 2)	270.00
9. Contract Profit / (Loss) (7) - (8)	(12.00)
10. Expected Loss to be recognised (as per 5)	**20.00**
11. Additional Provision required (9) - (10)	8.00

(b) While finalising the Accounts for the year 2014 -15 it was realised that XY Ltd. stands to receive ₹ 10 lakh from its customers in respect of sales made in 2014-15 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]

Answer:

As per AS - 9, where any uncertainty exists in relation to the collection of revenue, its recognition is postponed to the extent of uncertainty involved. Such item should be recognised as revenue only when it is reasonably certain to be collected.

In this case, if the company is able to assess the ultimate collection with reasonable certainty, the additional revenue of ₹ 10 lakhs arising out of the said price revision may be recognised in 2014-15.

(c) State what is Interconnection Usage Charges (IUC) in relation to telecommunication services. [4]

Answer:

Telecom operators have to interconnect their networks for forwarding calls made by their customers to customers of other operators or vice versa. Thus, operators have to pay charges for network usage based on guidelines announced by Telecom Regulatory Authority of India (TARI) from time to time. These charges are known as Interconnection Usage Charges (IUC).These interconnection charges have been reduced over the years thus making calls affordable and cheap.

6. (Answer any two)

(a) 1st April, 2014, Mitul has 50,000 equity shares of M Ltd. at a book value of ₹ 15 per share (face value ₹ 10 each). He provides you the further information:
(i) On 20th June, 2014, he purchased another 10,000 shares of M Ltd. at ₹ 16 per share.
(ii) On 1st August 2014, M Ltd. issued one equity bonus share for every six shares held by the shareholders.
(iii) On 31st October, 2014, the directors of M Ltd. announced a right issue which entitle the holders to subscribe three shares for every seven shares at ₹ 15 per share. Shareholders can transfer their rights in full or in part.
Mitul sold 1/3rd of entitlement to Pratul for a consideration of ₹ 2 per share and subscribe the rest on 5th November, 2014.
You are required to prepare Investment A/c in the books of Mitul for the year ending 31st March, 2015. [8]

Answer:

Investment Account in the books of Mitul
(Equity Shares in M Ltd.)

Dr. **Cr.**

Date	Particulars	No. of shares	₹	Date	Particulars	No. of shares	₹
01.04.14	To Balance b/d	50,000	7,50,000	5.11.14	By Bank A/c (sale of rights)	-	20,000
20.06.14	To Bank A/c	10,000	1,60,000	31.3.15	By Balance c/d (Bal.flg.)	90,000	11,90,000
01.08.14	To Bonus issue	10,000	—				
05.11.14	To Bank A/c (right shares)	20,000	3,00,000				
		90,000	12,10,000			90,000	12,10,000

Working Notes:

(i) Bonus Shares = (50,000 + 10,000)/6 = 10,000 shares
(ii) Right Shares = [(50,000 + 10,000 + 10,000)/7] × 3 = 30,000 shares
(iii) Sale of Rights = (30,000 shares × 1/3) × ₹ 2 = ₹ 20,000
(iv) Rights subscribed = (30,000 Shares × 2/3) × ₹ 15 = ₹ 3,00,000

(b) J of Jamsedpur consigned 50 tilling machines costing ₹4,000 each to B of Burdwan. J incurred the following expenses in dispatching the goods :

Carriage — ₹ 2,120; Insurance — ₹ 19,380; Freight— ₹ 3,500

2 machines were damaged in transit beyond repairs and 3 other machines were yet to be received by B. The latter sold 30 machines at a profit of ₹ 1,500 each and charged a commission of 5% on sales.

He paid the following expenses :
Unloading Charges— ₹ 3,000; Warehouse Rent— ₹ 4,000; Salesman's Salary, etc.— ₹ 5,000
Show the Consignment Account in the books of J. **[8]**

Answer:

In the books of J
Consignment to Burdwan Account

Dr. **Cr.**

Date	Particulars	Amount ₹	Date	Particulars	Amount ₹
	To Goods Sent on Consignment A/c [50 × ₹4,000]	2,00,000		By Loss in Transit A/c (P/L) [Note]	9,000
	To Bank A/c: Carriage Insurance Freight	 2,120 19,380 3,500		By Stock-in-Transit A/c [Note]	13,500
	To B's A/c: Unloading Charges Warehouse rent	 3,000 4,000		By B's A/c [Sales = 30 × 5,500]	 1,65,000

	Salesman's Salary etc.	5,000			
	To B's A/c: Commission @ 5% of ₹1,65,000	8,250		By Stock on Consignment A/c [Note]	68,500
	To Profit & Loss A/c	10,750			
		2,56,000			2,56,000

Working Notes:

Different Valuations

	No. of Machines	Amount (₹)
Goods Sent	50	2,00,000
Add: Consignor's Expenses	-	25,000
	50	2,25,000
Less: Loss in Transit	2	9,000 $\left[\frac{2}{50}\times 2,25,000\right]$
	48	2,16,000
Less: Stock in Transit	3	13,500 $\left[\frac{3}{50}\times 2,25,000\right]$
Received by Consignee	45	2,02,500
Add: Non- Recurring expenses paid by consignee (unloading charges)	-	3,000
	45	2,05,500
Stock on consignment	15	$\frac{15}{45}\times 2,05,500 =$ **₹68,500**

(c) (i) Electronics Services Ltd. sends out its Accounting Machines costing ₹ 200 each to their customers on Sale or Return basis. All such transactions are, however, treated like actual sales and are passed through the Day Book. Just before the end of the financial year, i.e. on December 24, 2014, 300 such Accounting Machines were sent out at an Invoice Price of ₹ 285 each, out of which only 90 Machines are accepted by the customers at ₹ 250 each and as to the rest a report is forthcoming.

Show the Journal entries in the books of the company for the purpose of preparing the final accounts for the year ended December 31, 2014. [4]

Answer:

Books of Electronics Services Ltd.
Journal

Date	Particulars	L.F.	Amount ₹	Amount ₹
24.12.2014	Sundry Debtors A/c [300 × ₹285] Dr. To Sales A/c [300 machines sent to customers for approval, invoiced at ₹285 each and treated as actual sales]		85,500	 85,500
31.12.2014	Sales A/c [90 × ₹35] Dr. To Sundry Debtors A/c [Adjustment made for 90 machines invoiced at ₹285 each and included in sales at that price, accepted		3,150	 3,150

	at ₹250 each]			
	Sales A/c [210 × ₹285] Dr. To Sundry Debtors A/c [210 machines invoiced and included in sales at ₹280 each, are yet to be confirmed and adjusted]		59,850	 59,850
	Stock on sale or Return A/c [210 × ₹200] Dr. To Trading A/c [Unconfirmed goods lying with customers included in stock at cost Price]		42,000	 42,000

(c) (ii)A fire occurred on the premises of a merchant on June 15, 2014 and a considerable part of stock was destroyed. The value of the stock saved was ₹ 4,500.

The books disclosed that on April 1, 2014, the stock was valued at ₹ 36,750; the purchases to the date of fire amounted to ₹ 1,09,940 and the sales to ₹ 1,56,500. On investigation it is found that during-the past five years the average gross profit on sales was 36%.
You are required to prepare a statement showing the amount the merchant should claim from the insurance company in respect of stock destroyed by fire. [4]

Answer:

Memorandum Trading Account for the period ended 15 June, 2014

Particulars	Amount ₹	Particulars	Amount ₹
To Opening Stock	36,750	By Sales	1,56,500
To Purchases	1,04,940	By Closing Stock (Balance Figure)	41,530
To Gross Profit [36% of 1,56,500]	56,340		
	1,98,030		1,98,030

Statement of Claim for Stock Lost

Particulars	₹
Stock Estimated on 15.06.2014	41,530
Less: Stock Saved	4,500
Stock Lost	37,030

7. (Answer any two)

(a) The following is an extract from the Trial Balance of Raunak Bank Ltd. as at 31st March, 2015.

Particulars	**₹**	**₹**
Bill discounted	**1,54,50,000**	
Rebate on bills discounted not yet due, April 1, 2014		**91,503**
Discount received		**4,36,500**

An analysis of the bills discounted as shown above the following:

Date of bills	**Amount**	**Term months**	**Discounting percentage p.a.**
January 13, 2015	**22,50,000**	**4**	**12**
February 17, 2015	**18,00,000**	**3**	**10**
March 6, 2015	**12,00,000**	**4**	**11**
March 16, 2015	**6,00,000**	**2**	**10**

Find out the amount of discount received to be credited to Profit and Loss Account and pass appropriate Journal Entries for the same. [8]

Answer:

Calculation of unexpired discounts or rebate on bills discounted

Date of Bills	Date of Maturity including three days of grace	No. of days after March 31	Amount ₹	Rate of discount % p.a.	Total Annual Discount	Proportionate Discount for days after 31st March
2015	2015					
Jan.13	May 16	46	22,50,000	12	2,70,000	34,027 $(2,70,000 \times \frac{46}{365})$
Feb.17	May 20	50	18,00,000	10	1,80,000	24,658 $(1,80,000 \times \frac{50}{365})$
Mar.6	July 9	100	12,00,000	11	1,32,000	36,164 $(1,32,000 \times \frac{100}{365})$
Mar.16	May 9	49	6,00,000	10	60,000	8,055 $(60,000 \times \frac{49}{365})$
						1,02,904

So, unexpired discounts on 31st March, 2015 = ₹ 1,02,904

The amount to be credited to Profit and Loss Account is ascertained from the Discount on Bills Account as follows:

Discount on Bills Account

Dr. **Cr.**

2015	Particulars	₹	2015	Particulars	₹
Mar.31	To P&L A/c (Bal. Fig.)	4,25,099	Mar. 31	By Sundries	4,36,500
Mar.31	To Rebate on Bills Discounted (on 31.03.15)	1,02,904		By Rebate on Bills Discounted (on 1.04.14)	91,503
		5,28,003			5,28,003

Journal

2015	Particulars	Dr. (₹)	Cr. (₹)
Mar.31	Rebate on Bills Discounted A/c Dr. To Discount on Bills A/c (Being unexpired discount brought forward from the previous year, credited to Discount Account)	91,503	 91,503
Mar.31	Discount on Bills A/c Dr. To Rebate on Bills Discounted A/c (Being provision for unexpired discount required at the end of the year)	1,02,904	 1,02,904
Mar.31	Discount on Bills A/c Dr.	4,25,099	

	To Profit and Loss A/c (Being discount earned for the year ending 31st March, 2015, transferred)		4,25,099

(b) The trial balance of Fastest Electric Supply Ltd. for the year ended 31st March, 2014 is as below:

(₹'000)

Particulars	Dr.	Cr.
Share Capital:		
Equity Shares of ₹10 each		**500,00**
12% Preference Shares of ₹100 each		**150,00**
Patents and trade mark	**25,04**	
15% Debentures		**247,00**
16% term loan		**153,00**
Land (additions during the year 20,50)	**12,450**	
Building (additions during the year 50,80)	**351,34**	
Plant & Machinery	**570,58**	
Mains	**45,24**	
Meters	**31,50**	
Electrical Instruments	**15,30**	
Office Rurniture	**24,50**	
Capital Reserve		**40,20**
Contingency Reserves		**120,30**
General Reserve		**10,00**
Transformers	**164,40**	
Opening Balance of Profit & Loss Account		**3,50**
Profit for the year 2013-14 subject to adjustments		**50,00**
Stock in hand	**120,50**	
Sundry Debtors	**62,46**	
Contingency reserve Investments:		
SBI Bonds – 2020	**100,10**	
Other Investments	**20,00**	
Cash & bank	**32,54**	
Public Lamps	**30,40**	
Depreciation Fund		**258,16**
Sundry Creditors		**65,24**
Proposed dividend		**121,00**
	1718,40	**1718,40**

During 2013-14 1,00,000, 12% Preference Shares were redeemed at a premium of 10%. Calculate the amount of Share Capital, Reserves and Surplus and Tangible Assets to be recognised in the balance sheet as on 31st March,2013.

Adjustments:

(i) Transfer to Contingency Reserve ₹1,70,000 & to General Reserve ₹2,00,000;

(ii) Loss on Contingency Reserve Investment ₹10,000;

(iii) Make a Provision for debts considered doubtful of ₹1,014,000. [8]

Answer:

1. Share capital

Authorised Capital	
50,00,000 shares of ₹ 10 each	500,00
1,50,000 12% Pref. Shares of ₹ 100 each	250,00
	650,00
Issued & Subscribed Capital	
50,00,000 shares of ₹ 10 each	50,000
1,50,000 12% Pref. Shares of ₹ 100 each	25,000
Less: 1,00,000 12% Pref. Shares of ₹ 100 each	(10,000)
	55,000

2. Reserves and Surplus

Capital Reserve		4,020
Contingency Reserve (12,030 + 170 -10)		12,190
Reserve (1000 + 200)		1,200
Profit & Loss Account		
Opening Balance	350	
Add: Profit for the period	5,000	
Less: Transfer to General Reserve	(200)	
Less: Transfer to Contingency Reserve	(170)	
Less: Provision for Doubtful Debts	(1,014)	3966
Total		**21,376**

3. Tangible Assets

Land (10,400 + 2,050)	124,50
Building (3,0054 + 5,080)	351,34
Plant & Machinery	570,58
Mains	45,24
Meters	31,50
Electrical Instruments	15,30
Office Rurniture	24,50
Transformers	164,40
Public lamps	30,40
Less: Depreciation Fund	(258,16)
Total	**109,960**

(c) Discuss —

(i) Re-insurance;

(ii) Double Insurance;

(iii) Main features of Electricity Act,2003. **[2+1+5=8]**

Answer:

(i) Re-insurance: Re-insurance means the transfer of a part of risk by the insurer. This is particularly done when the amount of insurance is very high and when it is very difficult to bear the entire risk by a single insurer, a part of the risk is to be insured with some other insurance companies.

(ii) Double Insurance: When the same risk and the same subject matter is insured with more than one insurer, i.e., more than one insurance company, the same is called Double Insurance.

(iii) Following are the main features of Electricity Act, 2003 —

- The activities like generation, transmission and distribution of power have been separately identified.
- The Act de-licenses power generation completely (except for hydro power projects, over a certain size).
- 10% of the power supplied by supplers and distributors to the consumers has to be generated using renewable and non-conventional sources of energy.
- Setting up State Electricity Regulatory Commisson (SERC) made mandatory. (v) Appellate Tribunal to hear appeals against the decision of the CERC and SERCs.
- Ombudsman scheme for consumers' grievance redressal.
- Provision for private licensees in transmission and entry in distribution through an independent network.
- Metering of all electricity supplied made obligatory.
- Provision relating to theft of electricity made stricter.